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By H. Parker Willis

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Contents for JANUARY

A Month's World History

is piled. In spite of it all, the buried are alive.

Within that hospitable shrine, the Library of Congress, the most thorough of historical scholars, John C. Fitzpatrick, is impressed by the revelation of *George Washington Himself* (Bobbs-Merrill) in written document. He believes that this is the only dependable revelation and that tradition should be rejected. His book is thus the authoritative and most interesting outcome of a definite method of approach, and illustrious persons like Julius Caesar who have no Library of Congress to perpetuate their fame have reason to be envious of Washington's fortuitous advantages.

To the Washingtonian epic Kenneth Roberts contributes a romantic illumination. In his latest novel we share the trials and the triumphs of the *Rabble in Arms* (Doubleday, Doran) who fought and won the Revolutionary War. A valuable addition to the books on the period is Royal Ornan Shreve's biography of General James Wilkinson, sometime Commander-in-Chief of the United States Army. He may have been, in Randolph's words, *The Finished Scoundrel* (Bobbs-Merrill). But he deserves his niche.

Having written a life of Jefferson, Gilbert Chinard now gives us a full-length portrait of *Honest John Adams* as the practical man of the Revolutionary period. Tyler Dennett's estimate of *John Hay* (Dodd, Mead) is detailed and discriminating. Rollin Osterwetz tells us of *Judah P. Benjamin* (Putnam's) whose remarkable career as Secretary of State for the Confederacy ended in London where, with British nationality renewed, Benjamin was known as an eminent Queen's Counsel.

As we cross the equator, we derive an impression not wholly in accord with our usual phraseology. It is not between the New and the Old World that a distinction should be drawn. No world in Europe is as old as Latin America continues to be. The true distinction lies between a tropical and a temperate zone.

The terrible cold under the *Northern Lights* (Oxford University Press) which was faced by the British explorers of Greenland lies, after all, beyond the frontiers. But along a river like the Amazon the heat, scarcely less exacting as an atmosphere, is inescapable and affects the entire population

Races intermingle. As a champion of the Nordics, Mr. Madison may bewail *The Conquest of a Continent* (Scribner's) by immigrants of another persuasion and may demand not only that immigration shall cease but that "wholesale deportation" be adopted as a practical policy. But what would be his lamentation if he had to purify the Aryan blood of communities where for centuries color also has been no bar to marriage?

It is to our credit in these days that we are not unduly obsessed, as were the Greeks, with ultimate achievements—the perfection of a poem or a statue. We have time to study the crudity of origins. In Europe origins are obliterated by civilization and have to be excavated by the antiquarian. But the origins of Latin America, racially intermingled, emerge like islands above the troubled waters of the twentieth century and the islands are still inhabited.

It is as a scientific naturalist that Professor Henry H. Rusby of Columbia University indulges in *Jungle Memories* of Bolivia (McGraw-Hill), and while his travels in search of cocoa were undertaken fifty years ago, the observation of plants, animals and fishes was of a kind that cannot be out of date.

Around a romantic heroine, *Tunchi* (Century-Appleton), who "stood lance-straight" in her "coral red *tarache*" and had "fine hair" like a "black helmet," Carl Liddle, assisted by the late David Thibault, has woven an elaborate and realistic tapestry of the customs and beliefs of every kind observed by him during the years that he spent among Indians and Spanish half-breeds in the forest primeval of Ecuador.

To Captain John Houston Craige of the United States Marines three years of service in Haiti spread a retrospect over the memory like the Arabian Nights adventures in a *Black Bagdad* (Minton, Balch). With equal zest he describes the magic of the Africanized Haitians, their music and their morals. Nor does he exclude from his record an occasional touch of the bizarre. He tells us of the *caco* who won fame by endeavors to behead three men with one blow of his machete, of the statesman who declined to be assassinated until he had arrayed himself in evening dress and of the white man who, going native, was so esteemed as to be able to claim, after two years, the paternity of 246 children.

Here are regions dominated by energy. Nor is the energy only supreme. It is irresponsible. The skyline explodes into volcanoes. Rocks are shattered by earthquake. Tempests spread the terrors of a tornado. There is always a surplus of heat. The bookshelf displays rough impressions of men dwelling within this environment to whom energy is the demonic virtue. Their dramas are melodrama. Violence is the force, will is the law, cruelty is the humor, fanaticism is the faith.

A characteristic, if imagined, example is Juan Colorado, half Irish and half Mexican, whose career is luxuriantly described as *The Journey of the Flame* (Houghton Mifflin). "When I deal with a man," he would remark,

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"short exposition of the commodity dollar"? As he says, the failures of banks in other leading countries were "practically zero" and, as we all know, the trouble with the banks in the United States has been due to conditions which long ago should have been corrected by legislation.

Included in the American Series (Henry Holt), there is a lengthy and exhaustive treatise by Dr. William Howard Steiner on *Money and Banking*. It is a book that deals with the regularities of banking, not the irregularities; and those who believe that bankers are only buccaneers when they have failed to be bandits and brigands may be disappointed over Dr. Steiner's sympathetic silences. What he has written is an admirable textbook on banking as we may hope that for the future it will be in operation. Such banking, it is abundantly clear, should be adaptable indifferently to diverse monetary policies. Inflation or deflation, a modern bank should be in a position to keep its doors open.

It is not in a serene universe of the stars that the Einsteins of economics have to elaborate their astrological abracadabra. We live in a world where, owing to the clouds of war and revolution, and preparations for further war and more violent revolution, visibility is still uncertain. All the theories are subject to the pressure of vast interests which are not always willing to consider matters on their merits, and of the same policy there may be very different interpretations. The New Deal is dividing opinion. In a readable and combative little volume, full of facts and phrases, Alva Lee describes how *America Swings to the Left;* and to "pussyfooters in the dog house," whoever they may be, he puts "the big issue" on which we must anticipate, he says, "an entirely new line-up of the two great political parties." Is a "paternalistic" administration to go on forever "saving a dime and spending a dollar"? Or is there to be a "trek back" to "rugged individualism"?

Mr. Lee himself is in no doubt as to what he wants. He regards the depression as a dislocated joint in the body politic; the New Deal is merely the plaster cast which, during a successful convalescence, the patient discards. With a touch of anxiety Mr. Lee asks, in effect, whether the United States wishes to become, like China, a permanent invalid. In his Book of Rites, Confucius, when acting as a General Johnson, only elaborated 300 rules of ceremony and 3,000 rules of behavior. But under the NRA there are 7,000 codes which make "the Book of Rites appear by comparison a simple little vest-pocket edition."

Francis Neilson also assails *Control From the Top* (Putnam). He has no use for Dr. Tugwell's "industrial discipline." It is, he says, a "policy of despair" in which the citizen, going "back to slavery," loads his limbs with "the manacles of the State"—what Mr. Belloc calls the servile State—"and gives up hope." Rousseau was right. Man, born free, is everywhere in chains.

That the NRA, like communism and fascism, imposes certain limitations on the liberty of many individuals is obvious. It affects wages and prices and conditions of labor. But is not the near-socialism—here as in Great Britain—active chiefly in the one plane of the material? There is, after all, no abolition of parliamentary institutions, no censorship of the press by the police and no interference with the practice of religion. Mr. Neilson is himself a case in point. He attacks the administration. But he has no reason to fear arrest.

In less emotional, but no less decisive, mood seven Harvard economists offer what they call "a candid and vigorous discussion of the New Deal." Over *The Economics of the Recovery Program* (McGraw-Hill) they are, broadly, filled with misgivings. Douglass Brown points out that "the ratio of wages may be set at almost any conceivable level, but employers cannot be compelled to hire a given number of men at that level"—which observation is typical of much else in this closely reasoned volume. An especially interesting chapter, for which S. E. Harris is responsible, criticizes the Warren plan of attempting to raise prices by the purchase of gold. Whatever the brain trusts at other universities may think about it, Overton H. Taylor of Harvard insists that "the real economists' utopia is now and forever *laissez-faire.*"

In the necessary task of stabilizing money, we have to face two questions which, unfortunately, are apt to be confused. The first is inflation—how far is it legitimate as a financial policy? The second is what—inflation or no inflation—might be a scientific currency under modern conditions?

On inflation, defined as the mere multiplication of printed currency, responsible economists are agreed. It is disastrous.

In 1876, a distinguished president of Cornell University, Andrew Dickson White, delivered what was held to be an epoch-making address on *Fiat Money Inflation in France: How It Came, What It Brought and How It Ended.* That utterance, with suitable comments, is republished by the Appleton-Century Company, and it will ever be a final warning to inflationists against the abyss into which their impulses plunge the community.

There were two nations, separated only by the Straits of Dover. Both were recovering from expensive and calamitous wars. Both

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earlier romance with Leicester, and the view is taken that, beyond dispute, Elizabeth—despite serious courtships—became, in the meantime, her favorite's mistress.

Of Bloody Mary, or *The Crimson Queen*, as in courtier style he names her, Daniel Henderson has written a straightforward account, while Harper's publish a translation by Warren B. Wells of Jean H. Mariejal's study of Mary's husband, *Philip II, The First Modern King*, which title, applied by a recognized historian, suggests an approach to "the Devil of the South" that, to some of us, is unusual. To Hilaire Belloc, *Charles the First, King of England* (Lippincott) was the last Britisher to whom executive kingship was actual—which, also, is an interesting thesis.

Stephen Graham now adds to his admired portrait of Ivan the Terrible a companion picture of *Boris Godunov* (Yale University Press), a grim ruler, indeed, whose reign persists to this day as opera. From this strong meat it is, perhaps, with a smile that we turn to "two hundred new letters," unearthed at Gotha by the indefatigable Hector Bolitho and entitled *The Prince Consort and His Brother*. These gentle feathers from the wings of Queen Victoria's Angel are wafted over the landscape, pure as the flakes of driven snow and, perhaps, as evanescent.

The period of Europe's awakening was prolific in personalities. The Viking Press issues Ralph Roeder's composite and brilliant study of what he calls *The Man of the Renaissance*, in which he includes Savonarola, Machiavelli, Castiglione and Aretino.

Inevitably Luther is again in the forefront. Abram Lipsky writes of him as *Germany's Angry Man* (Frederick A. Stokes)—a book of solid merit, illuminated by a fascinating style. In much detail, expressed in pithy paragraphs, frequently compressed into a single line—which is, in its way, a literary achievement—B. K. Kuiper confines himself to Martin Luther's "formative years" (Eerdmans). It is a book that as an expression of Lutheran feeling has an importance, if only for its sincerity.

Poet's Corner, always hospitable to prose, enshrines that artist in egoism, *Samuel Pepys—The Man in the Making*, from whose intelligent countenance Arthur Bryant cleans the dust, revealing the features fresh and authentic. It had not occurred to us that *Dorothy Wordsworth*, with her absorption in a brother's genius, was, as one reviewer puts it, a Lady of the Lakes (Oxford University Press). As a neighbor at Grasmere of Gordon Wordsworth, the poet's grandson, Ernest de Selincourt has had access to the archives

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CURRENT HISTORY

JANUARY 1934

Are the Bankers to Blame?

By H. PARKER WILLIS

[Dr. Willis, who for many years has been Professor of Banking in Columbia University, was until recently editor-in-chief of *The Journal of Commerce* (New York). He was expert to the House Banking and Currency Committee during the drafting of the Federal Reserve Act and has held important official positions as economist and financial adviser both in America and abroad.]

COMMITTEES of Congress for many months past have, like some moving-picture exhibitor, thrown upon the screen of national consciousness a film of financial intrigue and debauchery. The chief figures in it have been bankers—commercial or investment—and their associates. They have screened so strikingly that there is a tendency in many circles to regard them as true representatives of American finance and bank management. Both at home and abroad there are many who are disposed to consider that the banking history of the past decade is a record of cunningly disguised graft, of imposition upon stockholders and fiduciaries and of get-rich-quick methods. Yet, when we think a little more seriously about the matter, we inevitably question this first judgment, and we find ourselves drawn to inquire of the motives of the film directors, as well as the authenticity of the scenes recorded.

What is it that we have found out within recent months about various figures whose names were only a few years ago "blessed words" — with many of the rank and file? The disclosures at Washington may be classified under a few main heads as follows: (1) Those which relate to the personal financial ethics of the individuals involved, as illustrated, for example, in their income tax manipulations; (2) those that have to do with the use of bank funds for personal gain or other improper purposes; (3) those that represent various cunning and subtle forms of warfare against the interests of bank stockholders; (4) those which indicate misrepresentation in the sale of securities, or in the making of financial offerings to

the public at large. These points have been supported by definite admission or evidence in so many cases that they must be taken as established.

Already many are striving to excite still further the wolves of investigation, while others are throwing to them victims previously regarded as esteemed colleagues, in the hope that it may be possible to make good an escape while these victims are being torn to pieces. In such circumstances, and before the opening of a possible saturnalia of denunciation and futile or misdirected legislation on the floor of Congress during the coming Winter, it is worth while, indeed essential, that the community should stop for a little serious thought about the precise meaning of the disclosures and their place in the general scene of American business and finance. How generally representative are the facts that have been brought to light? How far are the persons now accused responsible for what was done? In what respects are safeguards already in effect? And, lastly, what, if anything, needs to done, and how far is there a call for moderation rather than for further excitation?

A fair examination of the facts disclosed by the Senate investigation leaves the feeling that but few persons, relatively, have been examined, and that these, while often "prominent," are not in themselves representative of either banking or business. Outstanding among the witnesses who have been subjected to test in Congressional committee rooms are a handful of bankers, about as many stock and bond issuers or manipulators and a few speculators and business men. Nearly all are inhabitants or citizens of New York. Practically all represent what are usually termed "Wall Street interests." Apparently, then, so far as superficial facts go, it is "Wall Street" that has been on trial, and not the banking and business community of the United States as a whole, unless it shall appear that the former represents the latter. We must, accordingly, reject entirely the notion that—so far as these inquiries show—there has been a revelation of demonstrated crookedness on the part of American finance, trade and banking at large. There has been nothing of the sort. The showing has related to a few carefully selected personalities which may or may not be representative of specific conditions. The real question of interest is not whether practices of the kind exposed were general, since on that there is no evidence, but whether business and financial ethics were such as to defend or approve such conduct, or to serve as the cause of it.

This question becomes nearly, if not quite, as interesting and important when we narrow it to an analysis of Wall Street ethics, as when we view it from a national standpoint. Doubtless, it is true that the Senate investigation has concerned itself with leading figures in Wall Street finance—figures which in former years would have been admiringly termed "representative." Doubtless, also, it is a fact that these figures have represented one prevailing point of view in Wall Street. Another phase of the question is thus really the problem how far and in what circumstances there should be developed a general distrust of Wall Street management in banking and business, and whether it is on about the same plane as that which is characteristic of the remainder of the nation. The matter can be approached most clearly by returning to the several categories of demonstrated fact already indicated, in order to ascertain what principles may be applicable

to each, and to assure ourselves how far they were inharmonious with nationally prevalent standards.

Most conspicuous, by far, in the revelations, have been those relating to the income tax. For a long time past there has, undoubtedly, been a fear in many quarters that income-tax returns might become the modern form of inquisition—a medium to be used for purposes of revenge or punishment when all else failed. It was only on the violation of income-tax laws that a notorious gangster was brought to the penitentiary some short months ago; and it is chiefly in connection with income-tax returns that prosecuting attorneys generally find their easiest field of effort. Hence, the disproportionate emphasis on income-tax data in the Senate inquiry. On this whole question, it is enough to say that but one of those who have thus far been subjected to examination has been brought to court, and that after a long jury trial he has been acquitted. Others, apparently, in the opinion of competent lawyers, have committed no legal wrong. The indictment against them then seems to be that, whereas in some recent years they paid large taxes, in others they have been able to charge off large losses—sufficient in many instances to cancel their tax liability which otherwise would still have been great.

That, in making their tax returns, these citizens resorted to many illegitimate if legal devices for the purpose of exempting themselves from payment cannot be excused or palliated, but it may be explained. For years past, the income-tax laws, regulations and administrative rulings have been not only grossly unjust and unfair, but deeply scholastic, quibbling and academic. There has been developed a large science of income-tax hairsplitting whose practitioners have been in no small proportion former officers of the government who —from Cabinet members down—have accepted large fees from corporations and individuals for the service they rendered in securing reductions, refunds and abatements of income taxes. Congress has known all about the existence of this situation and, rather than remedying, has been inclined to aggravate it.

The situation existed, not, as often stated, because of loopholes unknown to unwary legislators, but because of large gates of legal evasion available to those who have had the means to get them swung open. Greatest of these is the capital gains and losses provisions of the income-tax law. It needs correction not, as is usually the first thought in Congress, by closing one side of the gate—that which relates to capital losses—while leaving the income side, as far as possible, open as a doorway for such inflictions upon gains as may be thought of, but through a general overhauling. It was recently pointed out in a report of the Treasury Department that the nation loses as much through deductions for losses as it makes through payments for gains or profits in the stock market. Nothing could more definitely exhibit the hollowness of the entire system. Yet, Congress has let it run, though there is nothing like it abroad, and no such elaborate system of income-tax dialectic anywhere in the world—let alone any such persecution of taxpayers on the basis of disclosures made in income-tax returns. The nation at large more or less realizes this situation but is tolerant of it.

We are now able to answer our first inquiry—that relating to the ethics of the income-tax disclosures. They represent what Congress and the community has not only tolerated but has

clearly provided for. The fault is with the nation as a whole, and is the essential outgrowth of the unfortunate fact that only a small fraction of the public--probably less than 3 per cent, even under the revised tax law of 1932 —pays any tax whatever. As a result those who are thus heavily, partially and unrighteously taxed often exert themselves to evade the law and think themselves warranted in so doing where obvious doors of escape have been left invitingly available by Congress. This does not excuse, though it explains, the income-tax disclosures. They call not for hysteria and excitement, but for careful, scientific and above all equitable legislation on income taxation—something we have never had—and, above all, for an entirely new attitude of public responsibility.

A different problem arises when we come to the misuse of bank funds under forms of law which enable bank heads to speculate in the securities of their own and other corporations. Nothing is more alarming in the whole episode than the disclosures regarding the earning or losing of large sums through speculation with bank funds which, when gains, were promptly disbursed as bonuses to favored officers of banks, or, in case of losses, were written off because the borrowers could not, or did not want to, pay their loans. Such misuse was manifestly theft—as much so as if the recipients had dipped their hands into the banks' tills. Yet some countervailing considerations need restatement.

Nothing has been said, in all these inquiries, of the responsibility of directors and of the senior officers of banks who took no direct part in the transactions. Nevertheless, it seems clear that most of the operations wherein bank officers rigged the market, shared in pools and operated with the bank's own funds, often against the interests of the bank's own shareholders, must have been fully known to the managing body as well as to the associates of those who directly participated. Undoubtedly, these transactions either were or might, and should, with even fair oversight, have been known. Moreover, there can be no reason for supposing that these conditions were not known to the government examining authorities, and, indeed, there is plenty of evidence that examiners did know of them, since the evidence itself now presented must have been largely obtained from examiners' files or records, or through their suggestion or indication. Why did not such examiners take action designed to correct the condition? Was it because of restraint from above? If not, it must have been due at least to supine and political management in the so-called higher quarters.

The Comptroller's office, notoriously weak for years past, did not actually approve, but permitted and tolerated, the practices of which complaint is now justly made. Directors had abundant opportunity to know, senior officers to register open disapproval; examiners had the duty to find out and criticize; the Comptroller's office and the Treasury management in general had the function of repressing all such practices. The Comptroller too, has not been greatly different in attitude from other Federal banking authorities. One who asked the Reserve Board some years ago to enforce the provision of law forbidding banks to buy bonds from members of their board of directors, was turned away as a "trouble maker"; and this is only a minor example of the prevailing point of view.

If none of these things were done, there was malpractice, perhaps malfeasance, and general sharing of responsibility for what occurred. This does not alter, let it be repeated, the moral or ethical quality of the steps that were open to complaint, but it unquestionably alters our whole conception of them from the social standpoint. They become not the surreptitious performance of unethical or financially perverted men, but the reflection of a perverted or atrophied official and directoral conception of duty. So viewed, they are a reflection of an inattentive, careless and lax attitude on the part of the community as a whole. The division of responsibility thus becomes general, and rests where it belongs from the social standpoint, without in the least diminishing the personal wrongdoing of those who were guilty of objectionable practices.

The habit of diverting the funds of banks into speculative channels is unquestionably general in the United States, "thought of, pondered, and worshiped and practiced day on day" —one which has been looked upon with a lenient eye by the average man. One of the conspicuous bank executives who was under investigation before the Senate committee this very Autumn cynically remarked that "speculation is unsuccessful investment." We may well ask, as it is obvious that he mentally notes, whether, had the manipulations of our bank executives led to no loss, there would have been any hue and cry such as is now prevalent. Yet the violation of principle would have been as great in the one case as in the other, since an undue risk was taken at the expense of bank stockholders and was accompanied by an effort to obtain personal profit. The disclosures reveal the average American, as well as his national officials, singularly susceptible to considerations of expediency, prone to judge by success, indisposed to mete out blame or punishment on the basis of real action. They do not show bank executives or Wall Street as very different from others, save in degree.

We now pass to a special aspect of the recent investigations—one in which our bank executives have been subjected to severest criticism and in which their operations have been regarded as open to unqualified condemnation, even in Wall Street itself —that of inside dealings against the interest of their own stockholders. The testimony that has come to hand clearly discloses typical transactions in which heads both of banks and of corporations have not hesitated to use their own official information, acquired in the course of their duties, often as the salaried executives of corporations, for the purpose of stock market dealings and campaigns intended to make profits at the expense of stockholders who were less informed and less able to protect themselves. Operations in the stocks of corporations by their officers have long been regarded as on the margin of propriety and fairness, though they have been treated with great gentleness both by the courts and by legal and financial writers. A. A. Berle Jr., a putative member of the so-called Brain Trust, says in a recent volume, *The Modern Corporation and Private Property:*

"Any fair statement of the law would have to be based on the theory that the fiduciary duties of the director were limited to the corporation, and that if, by reason of his position he can without deception but equally without disclosure take advantage of a shareholder without depleting the corporate assets, he may do so. * * * It is probably generally true that man-

agements do take advantage of the shareholders individually, particularly along the lines of purchase and sale of stock dictated by their fiduciary knowledge of the corporation's affairs."

In effect this author thus holds what was done by the bank officers and others recently under investigation was (1) legal and (2) in line with general habit or practice in the American business world. This fairly reflects the general attitude of American observers who are not stockholders. There is unquestionably a large school of thought which regards the information acquired in directoral or executive service as the individual property of the person coming into its possession, and does not blame him extremely if he turns it to his own profit through stock market campaigns in which he defeats others—his fellow-stockholders—who are less well informed. That this is a low state of ethics and a contemptible standard of personal relationships need not be questioned. It is, however, the prevailing attitude of the stock market operator who does not hesitate to unload his holdings by technical methods of deception, even though he knows that many associates are buying under mistaken apprehensions.

The unbeautiful character of such selfish manipulations by the heads of some of our largest banks naturally attracts the denunciation of the community, though the same inquiry has revealed similar operations by nonbankers in numerous classes of stocks—motion pictures, oils and others. Many reprobate such operations on the part of strangers, though condoning them among friends and associates, on the ground that "every one is doing it."

The Banking Act of 1933, under great pressure of opposition, forbids loans by banks to their officers, seeks to limit the volume of loans to be made on stocks obviously for the purpose of speculation and provides the means for direct removal of bank officers who are known to be guilty of undesirable, even though not criminal, conduct. In these particulars it recognizes the evils whose existence has been illustrated in the recent inquiries and seeks to correct them, but it is necessary only to review the recent hostile attitude of many both in and out of Congress on these very points to realize that the act of 1933 is ahead of the prevailing standard of conduct, and that its success in application is correspondingly doubtful. American public opinion is still at the stage where, like Juvenal, it "sees the better way, but follows the worse." The blame for distinctly unethical practices, involving disloyalty and treachery to associates and stockholders, must be fully borne by those who are convicted of such practices, but they will still be able to reply that they have abundant counterparts among business men, and that the rank and file of their fellow-citizens are disposed to condone such conduct, if not upon occasion to accept and adopt it. There is enough truth in such a view to make obvious the necessity of a good deal of division of responsibility.

The more the record of the recent banking and business investigation is studied, the more does the testimony there adduced appear like an impeachment of the general standard of morality, not merely in Wall Street, but in the country at large, rather than as an indictment of any particular group of persons. Let it be repeated again, even at the risk of tiresomeness, that this in no way involves palliation or attempt to justify what was done. It merely recognizes why the events took place. The persons who committed

them were not "victims of circumstances," and they ought to have known better; but they were, in fact, ordinary citizens, no better and no worse than a good many others. That their conduct was not repeated many times over by smaller bankers and business men was probably the result of lack of opportunity, rather than of difference in individual standards of ethics. The truth of the whole matter is that the American public has, in the past two decades, grown more and more deeply materialistic, and less and less inclined to adhere to, or demand, high professional standards of honorable conduct. It has been rotted mentally by the widespread vice of stock speculation in a form equivalent to gambling, and it has tended to regard the accumulation of wealth as an occupation in which the end, if successfully accomplished, largely justifies the means.

An Assistant Attorney General, in testimony regarding the conduct of a bank president, who was alleged to have made false entries in his customers' accounts, said that the practice or others like it had occurred so often that it ceased to attract his official attention; but this must be taken with some grains of salt. While it is true that the number of bad loans made to officers of banks is absolutely large, it is small when the great number of the banks and the difficulty of getting even tolerably efficient and honest boards of directors for so great a number of corporations are considered. In the main, American banking seems to have been free from any unusual amount of direct dishonesty. But it is likewise true that it has often admitted a low ethical standard and has shown no especially scrupulous regard for honorable business conduct, as shown by the small and decreasing number of dishonest bank officials who are brought to justice. That this character is no worse than that which is generally characteristic of business and finance the country over is, as already stated, an explanation, not a palliation.

We come now to the last and perhaps the most mortifying of the disclosures of the Senate and other investigations of the past year or two—the fact that our investment bankers have been shown to have marketed many securities which they knew, more or less definitely, to be other than they were represented and frequently recognized as being of little or no worth. This was especially frequent when the issues were the output of foreign corporations and governments. Our banks failed to investigate the basis of securities, accepting the word of men who later turned out to be dishonest, and disavowed in their circulars their normal load of responsibility. They thus mulcted trusting clients whose confidence they had formerly won. It is a happy fact that these cases were the fewest among the instances of irregularity or unethical conduct that have appeared; and that they affected, on the whole, only a relatively small proportion of the securities marketed.

It would be difficult to find any palliation for the conduct of this small group of issue houses and bankers, and it would seem that the real burden of condemnation must rest with special weight upon the members of this group who defrauded the public by the distribution of false statements, or statements which they had no good reason for believing true, or at least by the tacit sponsoring of unsound issues. Their conduct accounts for the attempt of the new Securities Act to make the issuers of securities really the guarantors of their worth, and which thus seeks to protect the

prospective buyers of shares in hazardous business enterprises where no one can possibly give such an assurance of success. This group of so-called investment bankers, moreover, must undoubtedly be regarded as definitely beyond the pale even of the very liberal financial ethics of the American community and the still more complaisant standard of Wall Street. Such explanation as there may be for their conduct lies in the extraordinary greed and lack of discrimination with which the public bought the offerings that were placed before them. Unprincipled men did not hesitate to take advantage of this gullibility.

And here much blame must be accepted by the economists of the country, the officers of the Federal Reserve System and others—the economists because of their "new-era" teachings based upon the assumption that everything would turn out "good," the Reserve officers because of their lack of restraint in the making of loans to banks and investment houses—through purchase of their paper—which were engaged in the flotation of doubtful offerings. Informed that they were doing yeoman service to international comity and development, and that a new era in which old economic laws would no longer prevail was at hand, the investment bankers could at least claim some division of opinion about their conduct. The fact that the Investment Bankers Association never took action of any sort, so far as known, to repress or frown upon the pursuit of many of the more questionable practices further divides and generalizes the responsibility for what happened in this particular field. It is a poor defense, but, such as it is, the investment bankers who placed the foreign and other securities upon misrepresentation may make the most of it. It does, as indicated, divide the blame to an extent, though it does not reduce or modify it as a whole.

Our investment banking mechanism still exists; our method of choosing bank executives by favoritism, family influence and ability to sell securities and other things will probably persist for a good while; our worship of money-making and "success" is ingrained and will have to be educated out of us in some measure; our unwillingness to reduce the number of our banks and to place their management only in skilled professional hands is hard to overcome; our distrust of the teachings of experience in other nations is a serious obstacle to successful reorganization of our banking system. The errors and irregularities which have been characteristic of our bankers have duplicated and enlarged those of our speculative and picaresque business men. They have in many respects gone further than the latter and have carried to a higher development methods of raiding the common purse that were already frequent, and were recognized and tolerated even by our writers and *soi-disant* economists who have steadily apologized for them.

The time has come when it is needful to build up a more professional spirit in business and banking, duplicating at least the development that has been attained in some foreign countries. Legislation will not prove a corrective unless it is supported by public sentiment, and the extension of government control will make things worse rather than better. From the waste and folly of ship construction under the Wilson régime to the extravagance and waste of the Farm Board and of current administrative agencies, there is not a trace either of

progress in superior efficiency of management on the part of government authorities, or of more public spirit than has been shown by business men. From the dishonesty of the oil-scandal period under President Harding to the various frauds in the government of New York City under recent administrations, there is nothing to suggest superior honesty as compared with that of the business men and bankers who have figured in the Senate investigations. There is certainly no salvation to be sought in the extension of public control or ownership of anything. "Socialization" promises nothing, pending the advent of persons of a different and more promising type to do the socializing.

Probably the most convincing defense of the conduct of our banking community—and of the speculators and business men who have figured in a minor way in the recent investigations—is simply that they afford a fairly genuine picture not merely of business ideals but of the rank and file of American standards and ethics of business. The men investigated have followed their own lights and the lights of the community in which they were resident. Though they have many critics, now that their conduct is exposed, this merely suggests at worst that there is a great deal of hypocrisy among their colleagues, since these latter did not correct the abuses complained of. Undoubtedly there is still a considerable element in the community which knows better than is suggested or indicated by the practices in question and which wishes to have them altered and reformed as soon as may be. But how those who entertain a better standard of conduct can get to the front and can make their ideas effective, is a serious question. That they have not, and are not, doing so as stockholders, has been only too obvious. The complaint that they had not the facilities for making themselves heard is well founded, but is largely offset by the fact that they have not on the whole attempted to get a hearing, and have shown little intelligent interest in problems of corporate management.

No effort should be made to bring about a housecleaning of the familiar type in which more dust is raised than is laid. As soon as possible, there should be a determined effort to substitute men of better record and greater harmony with the better traditions of American business, rather than the average or worse, in place of those who have been directly responsible for the debauch of recent years. The mere sacrifice of some prominent figures to public reprobation while the really responsible men remain on duty in directorates and elsewhere will produce no fundamental change in conditions. Nor will there be a really thorough alteration of the state of things complained of until there grows up a totally different point of view on questions of corporate duty and management among the rank and file as well as among professional reformers, lawyers and leaders. This will take a good while, and meantime there will be no advantage in substituting executives of the same sort that have been in control. Neither shall we gain by transferring control of any branch of business to political appointees. The latter must necessarily be named by the same persons and under the same auspices that led originally to the appointment of the unfaithful servants who have been false to their trust while in private employment. There is, as we have just seen, nothing in logic or experience to expect better things from them than have been provided by their contemporaries in private life.

Wanted: Real Banking Reform

By JOHN T. FLYNN

[Mr. Flynn's criticism of the conduct of banks and corporations in the United States has on several occasions resulted in official investigations of their practices. Among his books are *God's Gold* (a biography of John D. Rockefeller), *Investment Trusts Gone Wrong* and *Graft in Business*. In the Spring a new study, *Security Speculation*, will appear.]

As Congress moved into the closing days of its last session it was still in the shadows of that vast banking débâcle which greeted Mr. Roosevelt as he assumed office. That was the most humiliating failure of a whole banking system in history. Yet, with that disaster still fresh in our minds, Congress passed a banking law which is a perfect example of the haphazard and unintelligent manner in which America deals with her great social and, particularly, her great economic problems.

The fundamental organic disease which afflicted our banks we ignored almost wholly. Instead we prescribed a half dozen poultices and lotions and one powerful narcotic. Under the guise of banning one very vicious type of affiliate we legalized a whole flock of equally dangerous other kinds of affiliates. We extended branch banking without providing any safeguards against its abuses. We literally, for the first time, expressly legalized and established holding company banking under the appearance of providing a thin and watery form of regulation. We overlooked wholly the one great basic condition out of which all our banking troubles have grown, namely, that our banks had ceased to be primarily banks and had become merely fueling departments in enterprises run not by bankers concerned with operating banks but by promoters whose object was to exploit the credit resources of the bank. And then, to complete the job of rambling legislation thus brought together, we provided for a guarantee of deposits, leaving most of the ills of the banks untouched, but putting the public vigilance to sleep by proclaiming that, while bankers may continue to inflict mortal wounds upon the banks if they choose to do so, the public need not interest itself in the matter since it will be protected against loss.

Unhappily, in spite of all that has happened, a large section of our business community persists in the belief that, after all is said and done, our banking troubles were just one of the fruits of the depression. The banks, perhaps, did unwise things. But in the end it was the crumbling of the country's business—the foundations on which our banking structure rested—that caused its failure. This is very much like saying that the leaks in the roof were caused by the rain.

After all, our bank failures did not begin with the depression. In the three prosperous years of 1927, 1928 and 1929 about 1,800 banks closed their doors. This was more banks than had failed in all the rest of the civilized world together in a decade. This surely ought to have been enough to arouse our suspicions as to the soundness of our banking system. Any other people, less stricken with complacency about its economic machine,

would have at least asked itself what would happen if a storm should break on a banking system which suffered such casualties in a season of profound calm.

What is more, after the depression got under way, while thousands of banks failed, other thousands stood firm. All were subject to the same blows. The fury of the depression beat upon all. But some banks remained while others were swept away. Have we not a right to conclude, since so many banks survived, that the primary cause of the collapse of others lay in their own inherent weakness? And since the number that failed reached the appalling total of over 10,000 is it not a just conclusion that the weakness which destroyed them was some contagious malady which affected the very organism of the banking system itself under which those weak banks operated?

This disintegration of our banking structure has been going on for a decade, growing in volume and intensity as we moved from prosperity to the depression. Strange as this must have appeared to the world outside our borders, it was not nearly so strange as our unwillingness even to think about the problem. It is all a part of our general unwillingness to look at the grim facts of our economic life. We have ridden along upon the theory that banking development is a matter for the bankers just as the development of our corporation laws was supposed to be the peculiar concern of our corporation lawyers. We permit individuals, as part of our devotion to the method of trial and error, to venture upon all sorts of experiments. The assumption is that while many will fail, here and there a few such experiments will succeed. Those which succeed will be imitated by others. The most efficient method will survive and thus our economic system will gather strength.

The weakness in this is that what survives will be what is most efficient for the individual who invents the method or for him who copies it rather than for the social economy. In the invention and perfection of these devices the public economy is not considered at all. If some student or observer interposes a criticism based on the interests of society he is set down as a subversive busybody. It is not until a new banking device or a new legal contrivance has been brought into general use and become all enmeshed and rooted in our economic life that the public becomes aware of the fact that its interests have been damaged.

And so during these last ten years, as corporation lawyers invented one device after another, as banking promoters developed one scheme after another, there was no public agency which was concerned with the interests of the depositors or of society as a whole which had the power to scrutinize these schemes, to analyze them, to restrain them or at least to bring them under regulation. A fine opportunity was presented to the office of the Comptroller of the Currency to perform this service. But this department, like so many departments of the Federal as well as the State governments, was under the domination of that fatal notion that government departments are set up to range themselves on the side of business groups, to collaborate with business groups to increase their profits and attain their objectives, rather than to represent the whole people and protect it against the excessive energies of acquisitive men. The form which the government's activities took in this situation is enlightening.

It was inevitable that the numerous and disastrous bank failures of the eight years preceding 1929 should have produced a little agitation among the bankers. And after a while there came to the surface a very powerful movement to deal with the situation. But it was limited to certain powerful banking groups. They called attention to our enfeebled banking structure and demanded that the nation find a way to legalize branch banking. This proposed remedy was in fact only another form of the disease which it was supposed to cure.

The primary evil in our banks for many years has been the incessant efforts of promoters to get control of the funds which flow into the banks. The bank is the depository of the community's funds and as such is the basis of the available credit of the community. The promoter-banker needs nothing so much as access to these credit pools. Hence he has perfected all sorts of devices for getting control of them. One of these has been the extension of branch banking. It was an easy thing to set up branches in different parts of the town or to buy up established neighborhood banks and make them into branches and thus operate them as funnels into which the deposits of the community were poured to find their way to the central bank of the system.

In places where branch banking was not possible under existing laws, holding company banking was resorted to. By forming a holding corporation it was possible to buy up unit banks all over the town or State or even in various States, operating them as unit banks in appearance but in reality as cogs in one large banking machine serving the same purpose as branch banking, namely, the acquisition of control over large reservoirs of credit.

The purpose of these enterprises cannot possibly be doubted. Wherever we find the branch banking system or the holding company system we find the bank affiliate in all its forms and subsidiaries trafficking in securities, real estate bonds and business adventures of every type.

Then, as our banking system grew weaker and weaker and the tide of failure rose against the structure, as a result of the exploitation of the banks, the one remedy proposed was the extension of branch banking and holding company banking in order to permit the promoters to extend their dominion over still larger numbers of banks. They proposed to cure the disease by expanding the areas of infection.

At this point the Comptroller's office assumed the lead in this movement for the extension of branch banking. The Comptroller announced that our troubles were due entirely to the presence in our system of too many small banks. These small banks possessed insufficient capital. They were under the control of untrained bankers. They could not possess the facilities for the intelligent examination of collateral. They could not diversify their loans and investments. They were at the mercy of the prosperity of their several communities and the condition of survival was the continued solvency of the communities on which they rested. Then followed an endless stream of reports, statistics, pronouncements, addresses and recommendations branding the little banks as unsound.

One wonders what would have happened to some lay critic who published such an incessant tirade against the soundness of the larger banks. It is not at all impossible that he would have been arrested for attacking the solvency of the banks. The Comptroller undertook to prove that all the failures were among the little banks. The

conclusion he drew was that, since the communities where these little banks languished needed banks, the way to supply the need was to permit the larger and more efficient bankers in the large cities to establish branches. Branch banking was prohibited in many States. In the Federal system it was permitted, but no bank was permitted to operate branches outside the limits of the town in which the parent corporation was located. He urged the extension of the permission first to Federal Reserve districts and later to the trade areas in which the proposed parent bank flourished.

In the Comptroller's crusade there were two odd facts. One was that the statistics about the weakness of the small banks were wholly misleading. It was true that the vast majority of the failures were among small banks. But this was because there were more small banks than there were large ones. The proportion of failures among small banks was no greater than the proportion of failures among the large ones. As a matter of fact, the losses measured by deposits were very much larger in the large banks as a class than in the small banks as a class. If we divide banks into those having deposits under $1,000,000 and those having deposits over $1,000,000, then we get the following statistical history of the failures: Out of every five bank failures, four were in the first class and one in the second. But if we measure the failures by deposits rather than number of banks, then out of every five dollars of deposits involved in the failures, one was in the first class and four in the second.

The other fact was that the Comptroller's studies were limited to this factor of size. Although his office was in possession of a mass of facts in all the suspended banks under his jurisdiction—a rich mine of data for the student of our banking—no effort was made to transmute that raw material into helpful information for students of banking. I myself tried to stir the Comptroller's office into a study of the relative failures among unit banks and branch banks, among holding company banks and branch banks. But it was never possible to get any information on these points. The important question of the part played by security loans in bank failures failed to interest that office. The whole subject of bank directorates, of the affiliates, of the part played by loans to bank directors and their own corporations, of the extension of the activities of bank officials to other corporate enterprises—all this held no interest for the Comptroller's office or any other agency of the government. It was not possible to find out even the identity of the holding company groups. The one department in the government which should have been vigilant actually sat upon such information as it possessed and would not stir to make its data available to students.

The abuses which crept into our banks were numerous. But they can all be traced to a single cause. Indeed, the whole business of reforming our banking system resolves itself into rooting out of the banks this corrosive cause. I have already stated it. But it is so important that it must be repeated. Banks were not primarily banks. The men who operated them were not primarily bankers. This disease is, of course, not peculiar to banks. It permeated our whole financial and industrial society. The street railway system gets into the hands of real estate developers, after which its primary function of transportation becomes a secondary matter. The utility system gets into the hands of investment bankers, after which its

fundamental function of supplying power and light to the community is subordinated to the business of merchandising securities.

How do banks get formed? They are usually launched by a group of local business men who are especially in need of the credit resources of the town. You will find a real estate man or two, the local equivalent of the investment banker, a few adventurous business men who have a flair for speculating in land and utilities and enterprises of the town. The directors serve without pay. The officers serve for moderate salaries. But all are privileged to dip at intervals into the pool of money and credit they had created.

I recently looked into the results of an examination of a bank in a Western State, which closed its doors last February. A depositors' committee made up a list of the relationships between the bank and its officials. The president had a loan of $15,000 and a deposit of $11.42. The first vice president had a loan of $14,482 and a deposit of $5.75. Another vice president had a loan of $21,278 and a deposit of $2.50. And the firm of the president and vice president enjoyed a loan of $26,000 with a deposit of $7.93. The officers and directors together had loans aggregating $747,268. A group of corporations controlled by the directors had loans totaling $668,984. These loans equaled more than a fourth of all the deposits. Their own aggregate deposits did not amount to $20,000.

It would be a simple matter to dismiss this incident if it were an isolated one. The most disturbing element is that the men who formed this bank and then proceeded to use its resources for their own enterprise were not irresponsible schemers. They comprised about fifty of the best-known business men of the town. These gentlemen were not doing anything out of the ordinary. Thousands of banks all over the country were submitted to the same practices. It cannot be said that the business communities in our towns were ignorant of these practices. People knew the bankers did this sort of thing and wrote them down as pretty smart. But it must be clear that, whatever they were doing, they were not interested primarily in operating a bank. No intelligent banker who was paid by the bank and the bank alone, who was forbidden to have any other business connections, who was not allowed to sit on various directorates and who could make no other profit than his wage for running a safe bank and who, therefore, standing on one side of the counter only, scrutinized every proferred loan from the point of view of his stockholders' and depositors' interests, would have made the mistake of approving loans like these.

The bank affiliate belongs to the same class as banks carrying on these transactions. It was invented in the first place to get around all the rules of sound banking which several generations had formulated. The late George F. Baker admitted to Samuel Untermyer during the Pujo money trust hearings that he organized New York's first bank affiliate for the purpose of evading the banking laws. Later the affiliates appeared everywhere, as might have been supposed, and with a pipe line leading directly into the banks' vaults, with no law restraining them, with no scrutiny possible and with the blessing of such mighty bankers as Baker, Stillman and Wiggin, they proceeded to violate every principle of trust which centuries of civilization had fabricated for the protection of society.

It is all very well to grow wroth at

Mr. Wiggin now and thus exhibit our own virtues. But what Mr. Wiggin was doing was well known to his board of directors. What he did was done in collaboration with many of our leading business executives. It was done on a somewhat smaller scale by thousands of bankers all over the country. Mr. Wiggin was not unaware of the importance of a bank enjoying the undivided loyalty of its employes. Every clerk was compelled to sign a pledge not to engage in any other business while an employe of the bank. If this was a good rule for the clerk charged with purely ministerial duties why was it not a good rule for the officers to whom was committed the larger matters of policy? If it was a sound regulation for the $25-a-week messenger and the $50-a-week teller, why was it not a good rule for the $4,000-a-week chairman of the board?

Mr. Wiggin insisted to Mr. Pecora that the outside connections of the higher officers were a good thing for the bank. It helped to bring the bank business. Mr. Pecora very adroitly inquired if Mr. Wiggin's presence on the finance committee of the Brooklyn-Manhattan Transit Corporation had brought any advantages to the bank. Mr. Wiggin insisted it had, to which Mr. Pecora again inquired if a loan of over $3,000,000 by the Chase National Bank to the president of the B. M. T. which was at the moment heavily under water was one of those advantages.

Here it is apparent that what broke down was that high sense of the fiduciary relationship which would have forced these men to stand resolutely on one side of the counter and that the side where their employer, the bank, stood. They did not do it because they could violate this well-established rule of business dealing with impunity. Does it not then all come down to this, that the crux of the problem is to insure that the bank directors and the bank officials, like the messengers, bookkeepers and tellers, shall be bank employes and nothing else? In spite of all that has happened, I, for one, have sufficient confidence in the probity and intelligence of men to believe that if bank officials were freed from the handicap of conflicting relationships and interests, they will almost automatically work out and practice safe standards of banking. If they will think with the minds of bankers rather than with the minds of speculators and real estate operators and utility promoters and investment merchants they will upon the whole think straight.

What has been done thus far to bring about this result? In the States, almost nothing; in the Federal Government, very little. The Glass-Steagall Banking Act, passed in the closing hours of the last Congress, without any aid from the administration and wholly under the stimulus of the public shock occasioned by the National City Bank revelations, moves only a short step in the right direction and several steps in the wrong direction.

This act does not, as is supposed, render unlawful all bank affiliates. It prohibits banks from being connected with affiliates of any sort through the issuance of identical stock certificates, that is, it makes it unlawful for banks connected with the Federal Reserve System to issue certificates of stock which may serve at the same time as certificates of stock ownership in any other corporation. But the bank itself may own affiliates. It may be connected with affiliates by means of a holding company.

It may not have any interest in any affiliate which is engaged in the issuance or underwriting of securities. But these provisions of the act are so

framed that it is still possible, through a series of holding companies, for one set of interests to control numerous banks and any number of security companies and, indeed, companies of all sorts. Corporation A may own a bank. It may also own other corporations which are not security investment banking concerns. But there is nothing to prevent Corporation A from belonging to Corporation X, which, in turn, may own a security underwriting company.

There are provisions which do limit the lending of money to affiliates by the bank directly. But there is nothing to prevent the bank from making loans on the security of stocks or bonds which may be issued by a subsidiary of some remote holding company.

The act limits loans by banks to officials and directors. But I see nothing there to prohibit loans to corporations in which those officials or directors may have an interest.

The act does authorize the Federal Reserve Board to scrutinize the loans of member banks on security collateral and makes some very mild limitations on such loans. But it does not go far enough to have any real reformatory effect.

While the act arranges for the examination of holding companies and for affiliates, it fails to recognize the grim fact that examination of large groups of banks and other corporations united by means of holding companies is practically impossible.

Banks should not be permitted to have affiliates of any kind. No sound public purpose can be suggested why this is necessary.

Banks should not be permitted to fall into the hands of holding companies. It would be a simple matter to construct a prohibition which would effect this end. The new act instead of doing this actually legalizes holding companies.

Banks should not be permitted to engage in branch banking of any sort so long as holding company banking is permitted. The Glass-Steagall Act permits national banks and State banks that are members of the Federal Reserve System to engage in State-wide branch banking where State laws permit branch banking. But it is futile to attempt to limit branch banking to State boundaries so long as a group of bank promoters can organize a holding company which will hold branch banks in as many States as it wishes. And while it holds branch banking groups and unit banks, it can also own and operate through pyramided holding companies security companies, utility companies, oil companies, real estate developments or any other sort of business it wishes.

And then, over and beyond all this, the act fails to come to grips with a fact about our banking system which cannot longer be ignored. That is that the business of demand deposit banking, or what we more or less loosely describe as commercial banking, is a business by itself, a business which performs an economic function of commanding importance. The whole body of demand deposits makes up the money of the community. In this respect these differ wholly from time deposits in commercial banks and savings deposits. These demand deposits should be rigidly guarded from being used in long-term investments of any sort. They should be limited, at least as far as possible, to self-liquidating short-term commercial credits. Indeed, some means ought to be worked out by which all or practically all the loans or investments made by deposit banks will be available for dis-

count at the central bank. This means that loans on common and preferred stocks as well as on corporate bonds ought to be strictly prohibited. The resources of savings banks might then be made available for long-term loans. The word "bank" ought not be used to describe the savings banks at all. They ought to be known as investment institutions, or at least some name ought to be found which would adequately describe them and differentiate them from commercial banks of deposit.

What a far stride this is from the kind of commercial banking we have had in this country will be guessed when we are reminded that the government's examination of one of the great commercial banks of Detroit, now in the hands of conservators, showed that it had put 85 per cent of its assets into security loans and tied up another 10 per cent in mortgages.

To this I ought to add at least this concession, that it may prove difficult to bring about this result without bringing all our banks into a single unified Federal banking system. As long as the national bank has to compete with the State bank in each State and the State Legislatures persist in implementing State banks with all sorts of dangerous devices for getting business away from the national bank, the job will be a difficult one. The chance to bring about this great and essential reform of unified banking came when the general collapse of March threw the whole situation into the hands of the Federal Government. The chance was promptly thrown away. However, it is not too late to be again seized. Until this is done all hope of real banking reform must be little more than a pious hope.

Weak China's Strong Man

By EDGAR SNOW

[Mr. Snow, an American who for several years has been the Far Eastern correspondent of the Consolidated Press Association, has recently published a book entitled *Far Eastern Front*.]

HOWEVER future historians may interpret the contemporary political drama of China, they are certain to assign the principal rôle to General Chiang Kai-shek. For six years he has been the outstanding political and military figure in the kaleidoscopic Chinese picture. Strictly speaking, we should not call him dictator of China, for neither his authority nor that of any one else reaches over more than a part of the vast provinces. But in so far as 400,000,000 Chinese are represented by the government at Nanking, Chiang Kai-shek is the nation's strong man.

Since 1927 Chiang has been, variously, Commander-in-Chief of the nation's armed forces, chairman of the Central Executive Committee of the Kuomintang, the only legal political party in China; chairman of the State Council, chairman of the National Economic Council, commander of expeditions against the Communists, President of the government, and so on. At times he has filled several Cabinet posts concurrently; always he has exercised ultimate power over the government. Today, as chairman of the Military Affairs Commission and holder of other important offices, he sanctions whatever domestic and foreign policies the recognized oligarchy follows. Unquestionably he has borne, and continues to bear, the chief responsibility for Chinese policy throughout the second Sino-Japanese "war."

Slight in stature and apparently without much physical endurance, Chiang nevertheless is full of a nervous vitality that expresses itself in vigorous action. He rises early and often retires late. He seldom takes a holiday, but moves frequently from one of his several estates to another. In a single day he often deals with such widely different matters as military plans against Communists, rural rehabilitation schemes, road-building methods, educational programs, foreign disputes, financial affairs and Nanking's attitude toward the latest rebel war lord. From his villa in Kuling he can issue orders directly, by radio or telephone, to Nanking, Shanghai, Hankow or elsewhere, or dispatch a military airplane to his followers in Peiping.

Chiang's persistence in power remains to many something of a mystery. He is not a great statesman, nor a really great general, and in some ways he is a mediocrity. Yet he has nevertheless contrived, with considerable adroitness, to survive half a dozen major crises. His strength really lies in the weakness of his enemies, their fears, their failure to unite against him, and, with the exception of the Communists, the absence of any mass following behind them. It lies also in his military control of the rich Yangtse Valley and the wealthy Shanghai banking and industrial area, in the support of the foreign powers and in his control of the Kuomintang.

General Chiang's background is typical of many Chinese neo-militarists.

His ancestors for years leased and managed a salt monopoly in Chekiang; his father is said to have been a wine merchant. Into that respectable atmosphere Chiang Kai-shek was born in 1888 at Chi-kou, a village near the walled town of Feng-hua, not far from Shanghai. As his father's calling apparently did not appeal to him, Chiang, at 18, entered the Paoting Military Academy. After a year there, he went to Japan and studied at the Tokyo Military Academy for four years. During this period he saw Japan develop rapidly as the great power of the Far East, and the impression on Chiang was profound.

He returned to China in time to join the Revolution of 1911. Two years later he became a sworn follower of Dr. Sun Yat-sen, but in the next ten years did little to distinguish himself. His official biographers speak of this rather furtively as the "dissolute" period of his life. He went in for Shanghai night life, became popular with the singing girls, acquired several concubines, explored the underworld and became intimate with leaders of the Ching and Hung Pongs, political-criminal gangs dealing in everything from opium to assassinations.

It was during the early period that Chiang met Chen Chi-mei, the dissolute tutuh of Shanghai, who was his chief until Chen's assassination in 1916. Chiang owed much to him, and later he was not to forget Chen's relatives. Another who shaped Chiang Kai-shek's early career was Chang Ching-kiang, a wealthy curio dealer and a charming personality. When Chiang, about 1920, drifted out of politics altogether, it was Chang Ching-kiang who backed him as an exchange broker in Shanghai. A veteran in political intrigue and a shrewd judge of men, Chang may have seen in the still youthful Chiang Kai-shek a man of promise, who might at some time be used. Eventually, under Chiang's so-called "spoils system," Chang became a Provincial Governor.

In 1923 Chiang "reformed," according to his biographers, and again turned to politics, joining Sun Yat-sen at Canton. In that year Sun concluded his agreement with Joffe, whereby the Soviet Russians were to help rehabilitate the decadent Kuomintang and lend to it economic, political and military advisers to lead a proletarian revolution. Dr. Sun sent Chiang with others to study at Moscow. On his return, some months later, Chiang was apparently a Red enthusiast. Sun and the Russians made him director of the Whampoa Military Academy, where he formed the military alliances that ultimately helped him to power. Henceforth his success was rapid.

Before Sun's death in 1925, Chiang was made a member of the Kuomintang Central Executive Committee. His political influence increased, especially in rivalry to Wang Ching-wei, non-military leader, Leftist in political thought, and generally regarded as the authentic ideologist deputed by Sun Yat-sen to succeed him as head of the party. Serious conflict between them was averted, however, till 1927. Chiang obeyed party orders, and, with a few exceptions, made no overt attempts to usurp political power. Many rivals within the party still held more important military commands, and Chiang needed their support. He also needed the continued help of the Russians, chiefly their advice, military supplies and knowledge of political organization and mass propaganda. Outwardly he continued to remain a warm convert to the Russian orientation.

Chiang's background, however, soon reasserted itself. By 1927 he was ordering the massacre of Socialists, Communists and Communist sympa-

thizers in the districts under his control. When, in April, 1927, Southern troops sacked Nanking, attacked foreign property and several foreign residents, and looted in the traditional pre-revolutionary manner, Chiang used the incident as an excuse to accuse the Communists of attempting to wreck the Kuomintang. He staged a counter-revolution, allying himself with Northern militarists and politicians, Chinese banking and milling interests in Shanghai and foreign capitalists.

After the massacre of Reds and Pinks at Shanghai and elsewhere, in which foreign police and Chinese gangsters participated, Chiang purged and reorganized the Kuomintang. At Nanking he established an anti-Red government with himself as political and military chieftain; it eventually managed to wreck the original Nationalist government at Hankow. The swing to the right pleased the foreign powers, and Nanking won their recognition. Chiang kept the name and semblance of Kuomintang organization, but he discarded most of its revolutionary principles.

Since then, the history of China till the Autumn of 1933 has been largely a record of Chiang's efforts to secure full party recognition for the legitimacy of his government, and to extend its control over larger areas of China. For duration and variety of dramatic incident, Chiang's enterprising fight to maintain his supremacy reads almost like an epic, for from certain viewpoints it does not lack the heroic quality.

The most serious crisis of the Nanking Government occurred in 1930 with the formation of the "Northern Coalition" at Peiping, headed by Leftist Wang Ching-wei. The "Christian" General Feng Yu-hsiang and the "Model" Governor Yen Hsi-shan started a drive against Chiang which almost succeeded. The long campaign taxed all Chiang's physical vitality. During the fighting I went to interview him at the front. I found him much aged since we had first met. He was worn, thin and nervous, and he seemed doomed politically. At last, however, intervention by Manchurian "Young Marshal" Chang Hsueh-liang saved him. Winning Chang to his side was Chiang's master stroke, but eventually the alliance cost the Young Marshal his rule over the 30,000,000 people of Manchuria.

On Sept. 18, 1931, the Japanese began their Manchurian campaign. Although Chiang Kai-shek at Nanking understood the real cause of Japan's action—the Young Marshal's move south of the Great Wall presaged a possible unification of China and Manchuria, which Japan could not tolerate—he made no effort to save his ally. Chiang's enemies now declare that he has long had a secret agreement with the Japanese to support him with money and munitions in Central China in return for his non-opposition to their program in the north. While that is most improbable, certain circumstances seem to suggest that Chiang and the Japanese general staff for some time have understood each other.

The Japanese invasion of Manchuria presented China with three possible lines of action. First, resistance on a national scale might have been organized. Second, direct negotiations could have been commenced at once for the settlement of all outstanding Sino-Japanese issues. While either of these policies probably would have eventually thwarted Japan's aims, their prosecution might have meant the downfall of the Nanking Government. That was a risk which the men in power did not wish to take. Instead, a third course was followed, the policy of inaction, submission and non-re-

sistance on a national scale, with responsibility shifted to the League of Nations—and Manchuria was lost.

Throughout the undeclared war with Japan, Chiang accomplished the feat of remaining Commander-in-Chief of China's armed forces without once personally commanding any opposition to the invaders. When, early in 1932, the Japanese invaded Chiang's own stronghold at Shanghai, he ordered no resistance. After the failure of his efforts to avoid that conflict, he moved the government from Nanking to Loyang, and for some time declined to become involved in the resistance made independently by the Nineteenth Route Army. Belatedly, he permitted two divisions of Nanking troops to go to Shanghai.

Although the government announced the adoption of a "resist-to-the-end" policy a few months after the Manchurian invasion, it was not acted upon at Nanking. Chiang did not mobilize his own troops for service in the North. He sent no guns, risked no airplanes with the "Volunteers" or the Young Marshal's Northeastern Army. When Inner Mongolia was invested last Spring, Chiang still held aloof. Not till the Young Marshal, after the débâcle, was forced to retire did Chiang move his Southerners into Hopei and take control. He himself, however, remained in the South.

These facts indicate to some that Chiang is still the "regional-minded militarist," more intent on keeping his own power than saving China. They may also explain why Chiang so readily made peace with the Japanese military when he finally moved some of his own troops into North China.

Throughout the Manchurian hostilities Chiang maintained that the Chinese Reds were a greater menace to the nation than the Japanese. He buried himself in the provinces, with some 300,000 troops supposedly fighting Soviet China. Although only a fraction of the money devoted to normal civil war was spent against Japan, enormous sums were used to build up Chiang's military units, to buy tanks, modern guns, bombing planes and so on, ostensibly for the purpose of suppressing communism, but principally to discourage the ever-rebellious Southern Generals.

These tactics have been of profit to Chiang. Today, although Japan has virtually annexed territory nearly trebling the size of her empire and the National Government at Nanking has lost its prestige, China's budget is balanced and her military position greatly improved. The loss of Manchuria, over which that government never exercised internal control, is no great blow. The change in North China, through the Japanese elimination of the Young Marshal's army, is perhaps a gain. It enhances unity under Chiang's mandate. Japanese troops now cooperate, as in the recent suppression of the revolt of Generals Fang and Chi, in the maintenance of Chiang's control there. The Communist threat has been minimized; what remains of Soviet China has become largely a needed buffer between Canton and Nanking. Moreover, Leftist opposition within the Kuomintang has been thoroughly tamed. Wang Ching-wei, once revolutionary godhead of the Kuomintang, now docilely resides at Nanking under Chiang's watchful eye.

From the people's viewpoint, however, Chiang's régime does not merit unqualified praise. Tragedy has accompanied its every move. Widespread famine conditions responsible for the loss, since 1928, of 2,000,000 lives, according to a conservative estimate, may be traced, apart from natural causes, to wars between militarists, to exactions and depredations of brig-

ands and unscrupulous officials, to the steady impoverishment of peasants everywhere by the rivalry of militarists, and to lack of elementary famine-prevention measures. In addition, probably 1,500,000 people have been slain by the combined efforts of the Communists and the government troops opposing them. An incalculable amount of property has been destroyed, including whole cities and districts ruined and depopulated. Economically and socially the country is worse off than it has ever been, while graft, bribery, nepotism, the sale of office and military domination of the courts continue.

Besides the territory seized by Japan, the Chinese Government lost its last vestige of control over Outer Mongolia, while Western Inner Mongolia seems destined to go the way of Manchukuo. The Anglo-Russo-Japanese "front" in inner Asia has moved into Chinese Turkestan (Sinkiang), which is now in revolt. Part of Szechwan has been occupied by the British-backed independent Tibetans. Szechwan, Yunnan and Kweichow Provinces remain in the hands of semi-brigand, militarist machines that are virtually autonomous, while the southwestern provinces are independent.

Nanking cannot be held responsible for China's cumulative disaster. All things considered, the present régime is probably a great improvement over those of the past. Areas under its direct supervision offer some exceptions to the evils mentioned; several thousand miles of roads have been constructed; considerable building has taken place; a great project in dike construction on the Yangtse has been completed. But the greater part of progress is the result of local efforts and often is achieved despite obstruction by the national government.

Although not reflected in the Japanese conflict, the chief advance at Nanking has been the creation of effective armed forces. Chiang Kai-shek's own large bodyguard and other troops are now superior in training, discipline, equipment and auxiliaries to any military unit in China. Other definitely Nanking troops, totaling perhaps 400,000 men, with commanders, like General Ho Ying-ching, personally allied to Chiang, are better trained and equipped than rival forces, and show the effect of four years of instruction under German military advisers. Nanking's air force has grown to include 200 modern pursuit craft and bombers, many airdromes have been laid out and a score of American pilots have been engaged to establish an aviation training school at Hangchow. New arsenals have been erected, tank corps organized and artillery units modernized.

Finances were long directed by T. V. Soong, Harvard graduate, and by far the ablest man at Nanking. Regarded by many as the savior of the central government, by others as the agent of China's ultimate ruin, he was Chiang's Man Friday. He induced the Shanghai bankers to give Chiang the first loans with which to set up in government, and devised ways and means of delaying bankruptcy. After six years, Chiang probably no longer needs Soong since the Shanghai bankers are already so deeply involved at Nanking that they must support the present régime to the limit. Nevertheless, the opinion has persisted that "if T. V. goes, Chiang goes."

Everybody agrees that Chiang has become "immensely wealthy." A comparatively poor man before his rise to power, he startled even blasé Shanghai when, a few years ago, he spent $100,000 on his wedding to the sister

of T. V. Soong, pretty, Wellesley-educated Soong Mei-ling. He now owns costly and well-protected estates in Shanghai, Nanking, Kuling, Fenghua and elsewhere. He is said to own many blocks of real estate in the foreign settlements at Shanghai and big interests in cotton and flour mills. He frequently makes large personal donations to various causes, and in his monetary awards to loyal generals is often imperially lavish. When recently he wanted to buy a new air yacht, he chose Sikorsky's latest and bullet-proof model, which cost him over $80,000.

With the growth of the Chiu Wang Hui (Save the Realm Society), otherwise known as the "Blue Shirts," Chiang is charged with using his political profits to perpetuate his control of a Fascist State. Chiang's "Blue Shirts" were organized in May, 1931, among the cadets of the Nanking Military Academy, and now have thousands of adherents, mostly among military officers. Their aim is to counteract Communist influences among the young, but chiefly to popularize the idea of government by a military dictator to replace the Kuomintang principle of democracy. If Chiang's triumph has any significance, it is that under him the outlook of the Kuomintang has moved away from its belief in liberalism. This is perhaps the logic of one-party government, which may require a dictator for success. But in China it also means that the realization of an enfranchised democracy or people's republic has been indefinitely delayed.

Favored by domestic circumstances and by an understanding with Japan, Chiang Kai-shek appears secure in his present position in the militarist system over which the Chinese people have been unable to devise any adequate means of control. Nanking's destiny is closely interwoven with Chiang's, and it is difficult to imagine one surviving without the other. That is true, despite the dislike of Chiang among many Kuomintang party members, including men whom he himself has placed in office. Outside the party his enemies are, of course, legion, for in leading the crusades against communism he has probably been responsible for more deaths, as Mme. Sun Yat-sen has charged, than any other individual in modern Chinese history.

Certain members of the Kuomintang, familiar with Chiang, have criticized him to me for his bad temper, vindictiveness and at times rudeness and ill manners, which in Chinese eyes are grievous faults. He is thought to lack the warmth of personality and the great human qualities that make a popular leader. His un-Chinese candor undoubtedly creates enemies and wins and holds loyalties with difficulty. He speaks and rules boldly, dogmatically, dictatorially, and his reluctance to accept advice, even outside his military sphere, requires exceptional tact in those who must cooperate with him.

Many foreigners, nevertheless, have been impressed by Chiang as a soldier of great strength of will and purpose, working for the ultimate good of China. They believe that Dr. Sun Yat-sen would have, in the circumstances, sanctioned all his methods. Such foreigners consider Chiang to be the best man who has yet held the reins of government in China—a view shared by many of the Chinese bourgeoisie. To them the fact that Chiang has managed to maintain a government for over five years is proof enough of his ability.

He is particularly admired by Americans and Europeans in China who are interested in oil, munitions, machinery, tobacco and other branches of Western

business. Such men like the dispatch and authority with which Chiang works. "He means what he says," they aver, "and he keeps his word." They are impressed by his "essential soundness" in commercial and political transactions, as well as by his adroit grasp of the military situation. They admire him also as knight militant against communism and socialism in Asia, and his wars against the Chinese Reds in the provinces meet their hearty approval. They feel that he is fighting their battles as well as Nanking's.

Chiang has been accused unjustly of becoming a Christian largely for political reasons and to improve his standing with the foreign chancelleries. The gentle evangelism of his young Christian wife, Soong Mei-ling, was most likely responsible for his conversion. Chiang is devoted to her, and is said to have now adopted monogamy as the basis of his family life. Another reason for his turning Christian, some suggest, was his belief that he could use the Christian church in China to enhance the prestige of the Nanking Government. Having abjured Marxism and democracy, the Kuomintang needed something else to rally the people's loyalty. Loyalty to the State had been sadly lacking since the collapse of mass faith in theocracy, the bulwark of stable government till the end of the Manchu Dynasty. Buddhism and Taoism were hopelessly moribund; Christianity seemed to offer the solution, even if the foreign missionaries are now dismayed to find numbers of young Chinese hostile because they identify Christianity with the Kuomintang régime and Nanking propaganda.

Chiang, however, appears to take his new faith seriously. He says his prayers regularly and attends church when in the city on Sundays. Sometimes, when time presses, he takes Kiang Chiang-chuan, a Methodist pastor, in his motor car, surrounded by scores of bodyguards, while he travels to his suburban villa at Tongshan. On the way Kiang, an old friend of Mme. Chiang sits between husband and wife and gives them a sermon or a friendly Christian talk.

While the years of struggle have increased Chiang's self-confidence, they have also softened his irascibility and weakened some of his prejudices. Once strongly imbued with a sense of Chinese superiority, he is now willing to learn from the West. On expeditions against the Communists, or on other duties, he is often accompanied by tutors who instruct him in economics, international law and related subjects. Mme. Chiang, who interprets for him the Occident which he has never seen, teaches him English, Western etiquette, psychology and music. The last he now tolerates, although he still regards foreign dancing as immoral.

Chiang will probably never be a great revolutionary figure. His traditional conservatism, strengthened by his acquisition of wealth and power, seems to have narrowed his social and political outlook. Perhaps China has had enough of revolution, and may now be ready to submit to the existing régime if it can offer security to property owners and a stable administration. The strange compromise in Chiang between ancient ways of thought and new may be essential for the leadership of a nation with one foot planted securely in medievalism and the other feeling for a stepping stone toward modernism.

The Turks Build a Nation

By Robert L. Baker

THE Turkish Republic on Oct. 29, 1933, celebrated its tenth anniversary with the slogan, "A Century of Progress in Ten Years!"—an exaggeration, no doubt, yet significant of the way Turks feel about their achievements in such a short period. Reforms have been many and drastic, and they have affected religion, language, customs and habits, but they have been carried out with an almost complete absence of fanaticism. The Kemalist revolution, more often than not, has scorned intermediate steps toward its objectives, and cut many Gordian knots. It has even rushed headlong into economic changes against the advice of famous foreign experts.

In spite of all this there has been a cold, unemotional quality about the decisions of the Ankara régime that is unique. This realism is easily traced, of course, to Mustapha Kemal, Turkey's taciturn, determined and far-sighted President. He and his Premier, Ismet Pasha, are military men, and the government they established has functioned throughout the decade like a general staff. Reforms decided upon at headquarters were announced to the nation in clear-cut language, and they were enforced by what amounted to martial law. Hence many of them have been so forthright as to appear oppressive in foreign eyes. Persuasion has come later—in campaigns to popularize measures already taken. This method would have encountered serious resistance in most countries, but Mustapha Kemal knew his people. They were illiterate but disciplined, and they had complete confidence in his judgment.

The objectives toward which Mustapha Kemal sought to lead the Turkish nation were set forth in his famous six-day speech before the Grand National Assembly in 1927. "To bring all the Turks in the world into one State," he declared, "is an impossible aim. Centuries of bitter blood-stained experience teach us this. History shows no example of the success of a policy of Pan-Islamism or Pan-Turanianism. The policy indicated for us by history and reason is a national policy; that is to say, first of all to aim at the true happiness and prosperity of the nation, not to weary the people with distant aims."

By pursuing this national policy, Turkey has transformed herself in a brief ten years from a semi-feudal Oriental country into a respected modern State, holding membership in the League of Nations and on excellent terms politically and commercially with all her neighbors. That career has been followed with astonishment everywhere, and throughout the Moslem world with an admiration that has been tempered only by regret that Turkey has chosen to abandon her leadership of Islam.

Mustapha Kemal, it is now realized, was forced to uproot the old system of life in Turkey before he could create one more suited to the demands of the twentieth century. Political, social and religious reforms that discarded old traditions and customs

were put into effect with vigor and apparently with complete success. The stifling grip which a corrupt and moribund religious system held on every activity of the people was thrown off. The Caliphate and the religious orders were suppressed, and though Turks remained Moslems, the clergy were restricted to their proper sphere. Western civil, penal and commercial codes replaced the outworn Moslem *Shariat*. Un-national Arabic influences were eliminated by the adoption of the Latin alphabet, the Western calendar, the compulsory use of Turkish in religious services and by the exclusion of Arabic words from the Turkish vocabulary. Turkish became a new language, a medium for simple but forceful expression. So proud of it were the Turks that its use was prescribed in commercial intercourse, even in cosmopolitan Istanbul. The fez, which Mustapha Kemal regarded as a symbol of Turkish backwardness, was banned. The veil disappeared, and more by encouragement than by official action Turkish women left the seclusion of the home to participate equally with men in the life of the nation. The right of wives to divorce their husbands and the ending of polygamy indicate how sharply the republic has broken with Moslem law. And, by the beard of the Prophet, there are policewomen in the new Turkey!

Less sensational than these changes, but no less important, is the program of economic reform that has occupied the Turkish people during the last ten years. The prospects of the newly created republic were truly dismal. Turkish manpower and resources had been drained to the point of exhaustion by twelve years of almost continuous warfare. In all these struggles except the final one with Greece for Western Anatolia the Crescent had gone down in defeat. The richest parts of Asia Minor were little better than a desert after the Greeks retired. Railways not destroyed were in disrepair and the roads were almost impassable. Trade was dead and in many districts the population was on the verge of starvation. Looking abroad, only Soviet Russia was friendly, and her motives in helping Turkey in the war of liberation were open to suspicion. The great powers, especially Great Britain, regarded Turkey as somewhat mad and Mustapha Kemal as an irresponsible adventurer. Several small nations, whose conomic plight was no worse than Turkey's, received reconstruction loans through the League of Nations. Turkey had to save herself.

Yet there were some grounds for encouragement. The new Turkey had gained in compactness and racial unity by the loss of Syria, Mesopotamia, Palestine and Arabia. The system of capitulations, by which foreign nationals had for centuries enjoyed immunity from Turkish law, had been suppressed with the reluctant consent of the powers in the Treaty of Lausanne. And Turkey alone of the defeated countries in the World War had not accepted a dictated peace. The French had been expelled from Cilicia; a powerful Greek army, equipped by Great Britain, had been driven back to its ships. The Allies had been unable to carry out their plan to internationalize Constantinople and the Straits. Though poor, Turkey was mistress in her own house as she had never been under the Sultans. Confidence and self-respect, such as Turks had not felt for generations, were born anew.

Rehabilitation proceeded slowly at first, because everything had to be done at once. A little more than a year was spent in perfecting the or-

ganization of the government, in disposing of the acute Caliphate problem, in studying the needs of the country and in adjusting the curious and delicate balance between dictatorship and democracy, as represented by President Mustapha Kemal and the Grand National Assembly. Many of Kemal's early associates fell by the wayside, either because they were not in sympathy with his program of creating a modern, secular, industrialized national State on the Western model, or else for personal reasons. As soon as the vital matter of control and unanimity of purpose was settled, with the reins resting securely in the hands of the President, development began in earnest.

Mustapha Kemal's chief concerns were the repair and construction of railways and the creation of an adequate army. It has even been charged that a disproportionate amount of the revenues have been devoted to these objects. Dr. Schacht and Dr. Mueller, who were asked to report on Turkey's financial program, charged that the railway system was planned for strategic rather than economic purposes. The new lines, however, connect the capital with the principal cities of Anatolia, link the trunk lines to ports on the Black Sea and the Mediterranean, and provide rail communication with agricultural, coal, oil and copper areas. Their economic value, therefore, would appear to be indisputable. Since 1923 several hundred miles of existing line have been practically rebuilt, and more than 1,500 miles of new railways have been completed, with about 1,000 miles still under construction.

Before the World War, the railways of Turkey were foreign-owned. German, British and French capital built about 2,000 miles of road under concessions over a period of sixty years. After the war the British and French companies retained their lines, but the Anatolian and Baghdad Railways were taken over by the Turkish Government and operated for several years without the owners' consent. A settlement with the bondholders, however, was reached in 1928, when the government agreed to pay for the lines by annuities running until the year 2002. All the post-war railways are State property. They have been built by Belgian, Swedish and German contractors, and financed by treasury bonds, a certain percentage of which is scheduled for redemption from the public works appropriation in each year's budget. These payments were made regularly until Turkey began to feel the full effect of the depression. In 1932 the government was obliged to ask the contractors for a four-year moratorium on the bonds due.

But construction was not stopped, and to continue building the long-projected branch line to the rich Argana copper mines, owned by the government, a tax-free internal loan of 4,000,000 Turkish pounds was floated early in 1933. This was an innovation for Turkey, and as opportunities for private investment had been rare, the loan was quickly oversubscribed. More recently, the government awarded the contract for a railway from Sivas to Erzeroum to a group of Turkish contracting companies. The line will be 420 miles long and will cost 47,000,000 Turkish pounds. This was the first time that Turkish capital and enterprise succeeded in winning a large contract against foreign competitors.

The Turks are extremely proud of their new railways—tangible evidence, they feel, of their progress. While there are as yet not enough good highways to serve as feeders to the railroads, both the central government

and the local authorities are exerting themselves to bring about improvement.

In every budget since the establishment of the republic, defense has been the largest item of expenditure. The Ghazi, or Victor, as Mustapha Kemal is popularly called, has been naturally concerned with the problem of security. He had won Turkey's right to live by the sword, and he felt that she was justified in having a strong army and also a navy equal in strength to that of Greece. Yet the total amount spent has not been out of proportion to the forces maintained. In 1933-34, for example, Turkey will somehow manage to support an establishment of 140,000 officers and men on an appropriation of about $20,000,000.

Among the special difficulties which had to be met in restoring the economic life of Turkey were those caused by the break-up of an old empire. For centuries Constantinople had been the administrative, financial and commercial nerve-centre of Turkey. For several years jealousy and lack of cooperation persisted between it and Ankara, the new capital.

Far more serious was the price Turkey paid for her ethnic unity. Nearly 2,000,000 Armenians had fled or had been expelled during and after the war, and as a result of the exchange of populations with Greece about 1,200,000 Greeks were lost. With the Armenians and Greeks went their wealth, a considerable part of Turkey's capital, as well as most of her manufacturers, merchants and artisans. In the old empire Turks had occupied the highest and lowest of stations. They had been soldiers, officials and, at the other extreme, peasants. Except in the Kaiseri district, they had shown little aptitude for business, which they left in the hands of Levantines and Jews. This lack of experience in commerce, industry, banking and finance gave rise to one of Turkey's major problems, and one that persists today. Authoritarian control, with planning and supervision from the centre, was inevitable if a strong national State was to be created.

In 1925 the Grand National Assembly enacted a law for the encouragement of industry. Manufacturers were offered State land, exemption from taxes and permission to import free of duty such raw materials as were not available in Turkey. Factories established under the law were made subject to minimum requirements in regard to motive power, value of installation and payrolls. Three new national banks were established under government auspices to finance industry on favorable terms. When the 1927 census was taken considerable progress had already been made, but only 300 of the establishments reported could really be called factories. In 1933, however, according to a reliable estimate, the number of genuine factories had increased tenfold since 1927. The government has directly aided more than 2,300 factories since the law of 1925 went into effect. Not until the old commercial treaties lapsed in 1929 was the government in a position to give adequate tariff protection to the infant industries. Since that year production in all lines has risen sharply and there has been a corresponding decline in imports.

In 1934 Turkey is expected to produce and manufacture all she needs in sugar and silk and leather goods, all of which were formerly imported. Within a few years the manufacture of cotton and woolen fabrics will supply the domestic demand. Heavy industry lags, but even here the Turks are optimistic. The country possesses

both coal and iron, and under the supervision of German technicians steel rails, ordnance and even airplanes have already been produced. The Ghazi's goal of a self-contained Turkey should be reached in another decade. A new labor law, modeled on those of Western Europe, governs the relations of capital and labor, regulates hours of work, wages and other conditions. Labor unions in the Western sense have not appeared, though local associations of artisans exist.

Agriculture occupies four-fifths of the population. Here, it must be admitted, progress has been slow. Tools and methods of cultivation are still for the most part primitive. The chief step forward has been the abolition in 1925 of the traditional and oppressive tithe on farm products. This measure was such a relief to the peasants that they seem willing to wait patiently for more substantial assistance from the government. Agricultural schools and stations have been established and foreign experts engaged, but the great needs are irrigation, drainage and roads.

Banking, like commerce and industry, was largely in the hands of foreigners and Levantines before the coming of the republic. The only important Turkish financial institution was the Agricultural Bank. In 1924 its activities were extended to assist commerce and industry, and through its fifty-three branches it has been a powerful factor in furthering the government's policies. The banks founded under the republic also serve all parts of the country through their many branches.

After several years of discussion, and against the advice of a number of foreign experts, the Grand National Assembly in 1930 authorized the establishment of a Central Bank of the Republic. Modeled on the Reichsbank, it was opened on Oct. 3, 1931, with a paid-up capital of 15,000,000 Turkish pounds. Today it vigorously performs all the functions of a State bank and serves powerfully to insure the financial stability of the government. Turkish banking, however, in common with commerce and industry, is greatly hampered by the excessive profits tax of 11 per cent levied on all commercial banks. On the other hand, the Turks are beginning to be weaned of the Oriental habit of hoarding. A National Association for Economy and Savings was founded in 1929, and through its 210 branches savings accounts have been popularized to such extent that in the four years since the association came into existence savings deposits in Turkey have doubled.

The Turkish Government has resolutely followed the policy of living within its means. Since 1926 budgets have been balanced, though sometimes only by withholding payment on Turkey's share of the old Ottoman debt. Inflation has been steadfastly avoided. Since 1914 no banknotes have been issued except for replacement. The Turkish pound is consequently in a relatively sounder position than the currencies of neighboring countries.

The Turks are proud of their government's financial record, but they have had to make many heavy sacrifices for the sake of balanced budgets. In the days before the republic Turkish revenue was derived mainly from the agricultural tithe and the customs. The abolition of the tithe and the decline of customs receipts after tariffs were raised in 1929 necessitated new forms of taxation. Today Turkey is a much-taxed country. Little subtlety has been used in devising levies, and there are probably more direct taxes in Turkey than in any other country. In addition to land, income, stamp and other imposts

found elsewhere, Turkey exacts a "profits" tax, a "crisis" tax, a "balance the budget" tax on salaries and a "transaction" tax that affects all kinds of business dealings. The income tax has been raised twice since 1927.

Thoroughgoing economies have been made in recent budgets. Even the modest salaries of the Deputies have not escaped. Appropriations for defense, of great concern to the Ghazi himself, have been cut, and ambitious reclamation and development projects have been postponed till better times. Though taxes are high, the Turkish people can be thankful that the Kemalist régime is honest. The notorious corruption of the old days is gone. Turkey's civil service is competent and its integrity is unquestioned. Moreover, the torturous Ottoman debt question was finally settled in May, 1933, with a great victory for Turkish stubbornness and shrewd bargaining. The total was reduced from 107,000,000 Turkish pounds gold to 8,000,000 pounds. As the annuities are small, Turkey should be able to meet future obligations promptly.

Since 1929 the Ankara Government has been engrossed in working out a new deal for Turkish commerce. Imports had always exceeded exports, sometimes in the ratio of 2 to 1. Mustapha Kemal determined to relieve the country of this constant strain on its economic system, but action had to be delayed until Turkey was free of treaty engagements affecting her commerce. So it was not until 1929 that tariff reform was attempted. In that year exports were valued at 155,214,071 Turkish pounds and imports at 256,296,379 pounds. Duties were raised on an everage of 33 per cent. The effect was immediate. In 1930 imports fell to 147,553,703 Turkish pounds, while exports amounted to 151,454,371 pounds. For th time Turkey enjoyed a favorab balance. Since 1930 there has slight excess of exports each further step was taken in adopting a quota system tha divert Turkey's import trade tries buying Turkish goods. other innovation was the co of barter arrangements with countries. Among them w agreement to exchange Brazil fee for Turkish tobacco and textile machinery for various products.

For the past three years control over commerce has b perimental, and not always The Turks, being inexperience conduct of trade, have made tions too hastily and have them too literally. The Minis National Economy, Commer Finance have shown, howev they are willing to learn fro mistakes. If regulations ha hastily imposed, they have b laxed almost as quickly when to be too oppressive.

No account of Turkey's re decade would be complete mention of the impressive a that have been made in educati itation and public health, and outward evidences of modern tion as the use of electricity a phones. The visitor to present-d key cannot appreciate these g less he knows what conditio under the Ottoman Empire.

According to the Ministry cation, the percentage of illiter during the decade from 85 to has been largely the result o ing several million adults to r write through the facilities of the People's Houses (the so cultural clubs of the People's and the army, which provides

tion for illiterate recruits. The enrolment in schools has doubled in the primary grades and grown sixfold in the upper schools. The education of girls has been specially encouraged. In the secondary schools, for example, the number of girls increased from 541 in 1923 to 7,511 in 1932. Instruction has been centralized under a special Ministry, which is advised by foreign experts, and the curricula have been secularized. Even small towns now have libraries, museums and reading rooms.

Progress in sanitation and public health glows through the dull medium of statistics. Towns with water conduits have increased from 20 to 185; those possessing abattoirs from 17 to 143. The number of hospitals has increased from 9 to 33. Orphanages, dispensaries, clinics, sanatoria and crêches have been established with public funds, and millions of Turks have been examined and treated for malaria, trachoma and other diseases. The well-being of industrial workers is safeguarded by a law requiring factories that employ 50 men or more to provide the services of a doctor, and factories with 100 or more employes to provide an infirmary. There are today hundreds of new parks, playgrounds and athletic fields to afford facilities for healthful recreation to the youth of the country. In 1923 only one town possessed a telephone system; today there are thirty such towns. The number of towns using electricity has grown from four to ninety-seven. Hundreds of miles of sidewalks have been laid and the paving of streets in Turkey's formerly untidy cities and towns is progressing rapidly.

Most of these improvements have come about as a result of the Law of Municipalities, which required each town to elaborate a town-planning program. The influence of women in civic development was assured by giving them the right to vote in municipal elections and to hold office in the communes. A Bank of Municipalities has recently been authorized to assist in the financing of local construction projects.

Turkey could undoubtedly increase the tempo of her development with the aid of foreign loans, but her leaders have not forgotten the abuses of loans and concessions under the empire. They are so jealous of Turkey's freedom of action that the fear of foreign influence amounts to an obsession. Ismet Pasha declared in 1929 that the Turkish people "would rather suffer privation longer than mortgage the future of the country." This view is still held at Ankara, and the restrictions imposed on foreign capital remain almost prohibitory.

The Turkish nation is proud of having achieved so much by its own efforts and resources. It seems likely that the republic will continue on its independent path. Progress may not be as rapid without the foreigner's money, but it will be Turkish. In that thought Turks can be content.

Canada's Party of the Left

By WILFRID EGGLESTON

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ONE result of the economic depression in Canada has been the emergence of a new political organization which proposes to do battle with the two historic parties, Conservatives and Liberals, for the right to form the next government of the Dominion. Known as the Cooperative Commonwealth Federation, it is broadly socialistic in many ways, yet clings to capitalistic individualism in the agricultural sphere at least. Although it was founded a little over a year ago, it has already enrolled sufficient supporters to perturb both major parties. The list of organizations affiliated with the new federation is certainly impressive. Impartial observers concede that unless times improve speedily between now and the next election the C. C. F. probably will elect enough members to hold the balance of power in the next House of Commons.

The appeal which the C. C. F. makes to the electorate of Canada is based on the argument that Liberals and Conservatives alike have become the agents of the financial and business interests, which really govern Canada, and that only in the birth of a people's party and the substitution of a planned economy concerned with providing for human needs rather than with making profits is there any hope of ending the injustice and inhumanity of present conditions. "The present order," the C. C. F. manifesto declares, "is marked by glaring inequalities of wealth and opportunity, by chaotic waste and instability; and in an age of plenty it condemns the great mass of the people to poverty and insecurity."

To the name of the organization the founders added the words "Farmer-Labor-Socialist," to indicate the principal roots of the new movement. Since then there have been other accessions of strength, and at the present time it is possible to discern the following groups of supporters:

First there is organized agriculture. From time to time in the past farmers in Ontario and the Prairie Provinces have organized in opposition to what they felt to be subjection and exploitation by the banks, the grain merchants and the Canadian Manufacturers Association. The Patrons of Industry and the Grange, in Ontario, were followed by the United Farmers of Ontario, who succeeded in 1919 in electing a provincial government which lasted four years. But since then their political power has waned sadly, though their business enterprises are still alive, and they have an organization covering the province. On the prairies organized agriculture created the United Farmers of Manitoba, the United Farmers of Canada, Saskatchewan Section, and the United Farmers of Alberta. The Province of Alberta at present has a farmers' government, while Manitoba has a Farmer-Liberal government with a farmer as Premier. In Saskatchewan, where the farm movement until recently kept out of politics, the present Ministry is Conservative. In these four

provinces, comprising two-thirds of agricultural Canada, the organized farmers have elected to throw in their lot with the C. C. F.

Although the Trades and Labor Congress, the most influential trade union organization in Canada, recently decided to take no part in politics, the sympathies of its leaders and probably of a majority of the rank and file are with the new political movement. In addition the C. C. F. has accepted as affiliated bodies the Socialist party of British Columbia, the Canadian Labor party of Alberta, the Labor party of Saskatchewan, which has united with organized agriculture to form a Farmer-Labor party; the Independent Labor party of Manitoba, the Labor Conference of Ontario, the Labor party of Quebec and the Farmer-Labor party recently formed in New Brunswick.

The third group supporting the C. C. F. embraces the intellectual radicals, most of them connected with Canadian universities. Realizing that thousands of Canadians who believe in the creation of a new social order have hitherto been unable to take direct part in politics because they were government employes or engaged in occupations in which political activity would be, to say the least, indiscreet, a group of college professors about two years ago formed the League for Social Reconstruction. The founders thought of it as a kind of Canadian Fabian Society, and hoped that it would become the training ground for the leaders of the new political movement. The league has appealed to the more radical element in all the larger seats of learning, and its clubs are now to be found from coast to coast. Because of its nonpartisan nature it has been unable to affiliate with the C. C. F., but it is very active behind the scenes. It was a committee of college professors, who were members of the league, that drew up the C. C. F. platform and manifesto. "Woodsworth's Brain Trust," as a section of the Canadian public derisively calls the committee, has since been busy preparing a comprehensive textbook on the Cooperative Commonwealth, *Reconstruction: A Plan for Canada,* which is regarded by the C. C. F. as a set of blue-prints for use by the youthful and enthusiastic architects of a new Dominion whom they propose to elect to office.

Certain sections of the church in Canada are also actively showing their sympathy with the new political movement. As far back as May, 1931, the Alberta conference of the United Church passed a resolution calling for the transformation of the present competitive system into a cooperative one. The Toronto conference of the same church adopted a similar resolution a few months ago, and in fact it may be said that the more radical or progressive members of all the Protestant churches in Canada give the C. C. F. their blessing. On the other hand, this has alarmed some of the more conservative church leaders, and the cry has even been raised that Soviet agents are using the church in Canada for the purposes of propaganda. The Catholic Church has been inclined to reserve judgment. C. C. F. leaders repeatedly quote from a recent encyclical of Pope Pius to illustrate his socialistic sympathies, but it is significant that a prominent prelate of Quebec has denounced the new movement as likely to augment rather than diminish the present misery in Canada.

The C. C. F. finds another source of strength in the unemployed, who number at least 500,000 strong, and who with their relatives of voting age represent perhaps 1,000,000 votes

in a population of 11,000,000. Since the depression began at least 100,000 young people have attained voting age without even the slimmest prospect of earning a livelihood. These people have little to lose from the most drastic changes in the social scheme, and if an election were held today it seems probable that the vast majority of them would be inclined to gamble on the promises of the C. C. F.

Finally, there are those idealistic citizens, hundreds of thousands of them, who are not party men and women, who in uneventful elections do not even vote, but who become fired every decade or so with the dream of a new era and the abolition of what they regard as the whole sordid and scheming political system. It was this vast silent body that in 1919 swept the Conservatives out of office in Ontario and the Liberals out of office in Alberta. Two years later they swamped the Meighen administration at Ottawa and sent sixty-five crusaders to the Dominion Parliament, dominating it for four years and exercising considerable influence for another five years. The "Progressive" drive of those days collapsed completely except in Alberta and Manitoba, but the almost religious intensity of that rebellion against the two old parties illustrates what could easily happen again.

The outstanding figure of the C. C. F. is James S. Woodsworth, its founder and first president. A former minister of the gospel, he has been a social worker, longshoreman, author, lecturer and Labor Member of Parliament. Since his college days he has been a humanitarian, pacifist, rebel against social and economic iniquity and advocate of social reform. He left the Methodist Church as a protest against the military spirit it displayed during the war; he was dismissed from his post as director of the Bureau of Social Research of the Prairie Provinces for publicly denouncing conscription; he was thrown into jail during the Winnipeg strike of 1919 because as editor of the strikers' paper he was charged with seditious libel; he was compelled to seek his livelihood as a dock laborer at Vancouver. Elected to the Dominion Parliament in 1921, he has since used his seat to preach social revolution.

The idea of a Farmer-Labor revolt against big business through a people's party had been taking shape in Woodsworth's mind for several years. About him in the House of Commons, from the day he first took his seat, there had been a little handful of members sympathetic to his views. From 1921 to 1925 the "third party," the Progressives, numbered 64 in a chamber of 235 members. Their power declined abruptly in 1925; most of the Progressives elected in that and the subsequent year were absorbed by the Liberal party, but a recalcitrant group persisted in maintaining their identity and independence. In 1930 there were 21 left—Woodsworth and two other Labor members, 11 members of the United Farmers of Alberta, plus the remnants of the United Farmers of Ontario and the Progressives. Just before dissolution in that year the 21 members met and formed a loose organization of Farmer-Labor forces, which they, abandoning the name "Progressive," called the "Cooperating Groups." At the election they expected to be returned in substantially greater numbers, and, if the Liberals and Conservatives were evenly matched, to hold the balance of power. But the election on July 28, 1930, resulted in a landslide for the Conservatives under R. B. Bennett, who won 138 out of 245 seats, while the "Cooperating Groups" saw their numbers reduced to 15.

Meanwhile, economic conditions, serious enough already, grew infinitely worse in the two following years. The number of unemployed rose to 750,000 and the number of persons receiving relief to 1,400,000. The Beauharnois scandal was interpreted by the Independents as indicating that the Liberals had sold themselves to the power interests for campaign funds, and the readiness of the Conservatives to give the Canadian Manufacturers Association whatever tariff benefits they asked for was regarded as illustrating a similar subservience to the privileged classes. While Woodsworth and his dozen colleagues denounced these things in the House of Commons they awaited an opportunity for more effective action. In the Spring of 1932 Woodsworth believed the time had come to strike. Calling together the members of the "Cooperating Groups," he proposed the formation of a new national organization to enter the political field and oppose Liberals and Conservatives alike for control of the House of Commons and ultimately the whole of Canada. It was finally decided to meet at Calgary, Alberta, on Aug. 1, 1932, to take the formal action necessary to set up a national Farmer-Labor federation.

In preparation for this meeting a series of conferences was held in various parts of the west which encouraged Woodsworth and his colleagues to aim high. The first conference, held at Edmonton in June, was attended by the executives of the United Farmers and Farm Women of Alberta, the nine U. F. A. members of the Dominion Parliament and the Alberta U. F. A. Cabinet headed by Premier John E. Brownlee. The conference embodied its conclusions in a ten-point manifesto based on the ideas of the United Farmers of Alberta which had been developed in the previous twenty years and which had been endorsed at their annual conventions. There was a striking similarity between these conclusions and the platform adopted a year later by the C. C. F.

The second conference, held at Saskatoon, Saskatchewan, and attended by delegates of the United Farmers of Canada, Saskatchewan section, and the Independent Labor party of Saskatchewan, decided not to merge the two organizations but to act in provincial politics under a common leadership.

The third conference, held at Calgary at the end of July, was that of representatives of Labor and Socialist bodies of the four Western Provinces, and was actually the annual affair known as the Western Labor Conference. Its chief function was to consider plans for common political action in the federal sphere, and it adopted practically as it stood a manifesto previously prepared by the Independent Labor party of Manitoba. When this conference had been sitting for two days it was joined, on Aug. 1, by representatives of the United Farmers of Alberta and the United Farmers of Saskatchewan. The conference now embraced the labor parties of four Provinces and the organized agrarians of two, all of them west of the Great Lakes. At this stage, on the day that the C. C. F. was born, Eastern Canada was not represented.

In the year that passed between the formation of the C. C. F. and its first annual convention, the movement spread until it became national. The farmers of Manitoba in annual convention voted to affiliate, and so did the United Farmers of Ontario. The organized Farmer-Labor groups in New Brunswick joined later, and so

did the Labor party of Quebec. In the provincial elections in British Columbia in November the C. C. F. polled 91,584 votes, as compared with the 115,417 votes cast for the Liberals, who will form the next government. Conservatives, mostly running as Independents, polled only 56,830 votes.

The most striking event in the history of the C. C. F. to date has perhaps been the national convention at Regina in July, 1933, when 135 delegates from six Provinces were present. This convention adopted a manifesto and program prepared by a committee of professors in Canadian universities, and however visionary that document may appear to be, it is generally conceded to be able and comprehensive. In order to create a "Cooperative Commonwealth," the promoters propose to socialize all financial machinery and all essential industry, to lift the tariff burden from the farmer, to regulate imports and exports, to set up a national labor code, to socialize health services, to abolish the Canadian Senate, to repeal all legislation which threatens freedom of speech and assembly, to humanize the prisons, and for the emergency of the moment to provide an extensive system of public works, including slum clearance and housing projects, reforestation, rural electrification and elimination of grade crossings.

The obstacles which the C. C. F. faces are enormous. Even if they succeed beyond their wildest dreams in winning a clear majority in the House of Commons, their troubles would only be just starting. They would be in the anomalous position of attempting to operate a capitalistic system under quasi-socialistic principles. They would discover arrayed against them a hostile Senate, which could veto all of their legislation. They would find the Provinces, especially Quebec, vastly alarmed about the rights and privileges guaranteed to them under the Constitution. They would probably be opposed by the Catholic Church and some sections of the Protestant Church. The civil service, appointees in many cases of the two historic parties, could, and probably would, add to their embarrassment. Perhaps the most formidable of all obstacles lies within their own ranks. The C. C. F. is attracting an army of cranks, doctrinaries and adventurers, and is threatened already with internal dissension. If it came into power it would be sadly handicapped by its lack of experienced administrators and executives.

But the greatest difficulty would arise from the inconsistency on which the C. C. F. is based. At heart the farmer, with all his socialistic theories, is a passionate believer in the undisputed ownership of his farm. In deference to these sentiments the C. C. F. promises to leave the farmer undisturbed in his occupation of land, while proposing to socialize all other essential industry. There are, moreover, numerous differences between the farmer and the organized laborer which will require a great deal of adjusting. Labor codes, unemployment insurance, workmen's compensation and other forms of social legislation cost money, much of which is extracted from the farmer by indirect taxation, but so far no way of extending these benefits to the farmer has been discovered. Many critics do not believe that such conflicting elements as the individualist capitalist land-owner-and-employer and the cooperative Socialist employe-and-wage-earner can be persuaded to march shoulder to shoulder toward a common goal. The real test of the C. C. F. will come when such issues as these are squarely joined.

The Economic Crisis in France

By Robert Valeur

[Mr. Valeur is a Frenchman who has been a member of the law faculty of the University of Lyons and is now teaching economics at Columbia University.]

Throughout the course of the world economic crisis, the position of France has been enviable. When the rest of the world seemed on the verge of bankruptcy, France remained quite prosperous. Though in 1932 industrial activity slumped badly for a short time, in 1933 business seemed to pick up. Yet France has her troubles too, for statistical evidence of economic improvement did not tell the whole story and left unanswered the riddle of the growing unrest among the French people in the Summer and Fall of 1933.

Taxpayers and retailers in various cities staged demonstrations in protest against excessive taxation. In August a serious strike took place in the building trades in Strasbourg and soon spread to all trades and municipal services, because of the encouragement given to the strikers by the Communist Mayor of the city. In the same month disturbances occurred on various rivers and canals where horse-drawn barges attempted to obstruct the movement of the motor barges with which they are unable to compete. In November thousands of miners and farmers marched into dozens of cities to protest against the existing economic order. Hunger demonstrations were staged in front of the Chamber of Deputies. The public school teachers, who hold radical views and disseminate disruptive social and economic theories among their pupils, voted to spread anti-patriotic propaganda. Numerous newspapers began to publish impressive advertisements urging the owners of automobiles to protest against the proposed tax increases.

If the instability of French Cabinets was an indication of a crisis, it was undoubtedly true that France reached the bottom of the depression in 1933. In that year four Prime Ministers successively tried to solve her problems. This series of Radical-Socialist governments, always lacking in a clear majority in the Chamber of Deputies, had to flirt with both the Socialists and the Centre for support and so was unable to adopt the drastic measures required to balance the budget, which has been showing an increasing deficit since 1931.

Once before, in 1926, half a dozen Cabinets succeeded one another; a new Minister of Finances was tried nearly every month, and still the budget could not be balanced. Worst of all, the decline of the franc could not be checked. Yet, in less than two years, Poincaíré was able to show a surplus on the budget and make it possible for France to return to the gold standard.

France today, as in 1926 and in 1930, is economically sound. In the post-war decade there was no over-expansion of her industries, but steady progress. Furthermore, a balance was maintained between industry and agriculture. Nor does under-consumption present any great problems, because in France wealth is more evenly

distributed than in any other capitalistic country and the mass of the people have adequate purchasing power.

Although France is far more self-sufficient than either Great Britain or Germany, she has to buy large quantities of raw materials abroad—one-third of the coal, practically all the fuel oil, all the non-ferrous metals except aluminum, all the rubber, a great deal of lumber, most of the wool and raw silk and all the cotton which she requires. To pay for these imports, France has to export large quantities of manufactured goods, mostly textiles and chemicals. She also exports normally a large part of her finest agricultural and dairy products, and even raw materials, since she has a surplus of iron ore and bauxite. The world-wide reputation of the French good taste assures her luxury trades a profitable market in other countries.

Exports, however, seldom equal imports, and France usually has to rely on the invisible items in her international balance of payments to offset the debits. During the post-war decade, the tourist trade was by far the most valuable of these invisible items, with a net profit averaging $300,000,000 a year. In the same period, France made an average of $120,000,000 yearly from shipping and transit services. To these figures should be added the interest on credits held abroad and the incoming reparation payments, which exceeded outgoing debt payments by an average of $80,000,000 a year. Altogether, the French balance of payments, before the depression, is estimated to have been $400,000,000 on the credit side.

France is so well balanced economically that it is reasonable to believe that she would not have felt the depression so acutely in the last two years if it had not been for world-wide conditions. The fact that her prosperity lasted longer than that of any other country meant that domestic prices, and in turn domestic costs of production, remained at a high level. But when practically the whole world went off gold, France, with the most stable currency of all, was left with a high cost of living which increased relatively to world prices as the dollar went further down.

This widening gap between French production costs and world prices is well illustrated by the French index of wholesale prices of domestic commodities and the index of wholesale prices of foreign products imported into France:

Year.	Domestic Commodities.	Imported Commodities.	Retail Prices.
1913	100	100	100
1928	619	660	...
1929	635	602	604
1930	591	458	606
1931	527	344	599
1932	528	339	557
1933*	440	270	515

*Estimated.

The situation was aggravated by the fact that, as always when wholesale prices decline, retail prices lag behind. This is shown in the third column of the table above, which gives the index of average retail prices for all cities, except Paris, with a population of 10,000 or more. In Paris the index of the average budget of a family of four, as calculated by the Paris Regional Commission, was 519 in 1928, 556 in 1929, 581 in 1930, 569 in 1931, 525 in 1932 and approximately 523 in 1933. This shows that the cost of living in 1933 was higher than in 1928, when France was still feeling the effects of the post-war inflation. As prices did not rise as quickly as the value of the franc declined in terms of gold currencies, foreigners in France enjoyed a relatively greater purchasing power than French people abroad; this stimulated

French exports, visible and invisible. In 1933 the reverse held true. France now had a currency with a high purchasing power abroad, while foreign countries had depreciated currencies with which they could not buy goods manufactured in a country where production costs were not substantially lower than in 1928.

This reversal of France's position soon made its mark on her balance of trade. In 1927, when domestic prices were not yet adjusted to the 80 per cent depreciation of the franc, exports exceeded imports by 3 per cent in value; in 1928 imports exceeded exports by 4 per cent; in 1929 this unfavorable balance had increased to 14 per cent, in 1930 to 19 per cent, in 1931 to 28 per cent, in 1932 to 34 per cent and in the first ten months of 1933 to 36.5 per cent. At the same time total exports declined absolutely to a tremendous extent. In 1932 French exports were only 65 per cent of the 1931 total and 45 per cent of the 1930 total. The first ten months of 1933 revealed a further loss of 7 per cent in exports as compared with the first ten months of 1932. Altogether, in the four years of world depression, the French trade balance was on the wrong side by 40,000,000,000 francs ($2,500,000,000 at the present rate of exchange). It might seem that this decrease results from France's specialization in luxury products, the first that are likely to be affected by an economic depression. But analysis of the figures shows that exports of ordinary wines, low-grade textiles and heavy metallurgical and mechanical products have diminished much more than those of old vintages, expensive fabrics and higher-priced automobiles.

Even though French foreign trade could not have remained immune to the world depression, the decline in the past three years is largely attributable to the government's unwise commercial policies. For instance, the liberal attitude on tariff questions, adopted by France after the Geneva Conference of 1927, when she initiated a contractual tariff policy in the commercial treaty concluded in the same year with Germany, was soon abandoned. Agreements granting most-favored-nation treatment were also thrown overboard. These measures could not be expected to increase her exports.

In desperation, the attempt to establish a favorable trade balance was shifted to limiting imports—the policy of import quotas was resorted to. Its chief advantage is that it limits imports without having to go through the difficult and uncertain procedure of revising commercial treaties. But it unfortunately provokes retaliation by the countries whose exports are put on a quota basis. France, it is true, has reduced her imports considerably, but her exports have declined to an even greater degree.

France has also reduced her imports by imposing a surtax on goods imported from countries with depreciated currencies. The first use of this method was the decree of Aug. 1, 1931, in the case of Spain, although an accord signed with that country on Oct. 23, 1931, lifted the tax. After England went off the gold standard, a decree on Nov. 12, 1931, of 15 per cent ad valorem placed a surtax on imports from England, Argentina, Australia, Canada, Denmark, Egypt, Finland, India, Mexico, Norway, Sweden and Uruguay, all of which had depreciated currencies. France, however, in her desire for American goodwill did not apply the surtax to American imports when this country abandoned the gold standard. The British

Government thereupon protested that this was unfair discrimination and, on Nov. 22, 1933, threatened to apply to French imports a 21 per cent surtax if France did not abolish her own surtax. There is no better illustration than this of the futility of the economic warfare resulting from the depression.

The unfavorable French trade balance has been partly offset by invisible exports, but these, too, have declined substantially in the past three years. The tourist trade, which in the post-war decade was the most important of these invisible items, has suffered enormously. Foreigners visiting France numbered 1,800,000 in 1930, as against 1,500,000 in 1931, 994,000 in 1932, with a still smaller figure in 1933. As a result the French international balance of payments, which had been very favorable until 1930, revealed an excess of debits over credits of 3,000,000,000 francs in 1931, 4,800,000,000 francs in 1932, and about 6,000,000,000 francs in 1933, a total of 13,800,000,000 francs.

Under such conditions France should have exported gold in the past three years. Instead, there was a continuous flow of gold from abroad into the vaults of the Bank of France. The stock of gold held by the bank, which amounted to 53,578,000,000 francs on Dec. 31, 1930, increased to 68,481,000,000 on Dec. 31, 1931, and to 83,129,000,000 on Dec. 31, 1932, decreasing slightly, however, to 79,282,000,000 on Nov. 25, 1933. In the past three years, therefore, France has added 25,704,000,000 francs to her gold holdings, without taking into account the gold in the hands of private banks and individuals. If we add the deficit of 13,800,000,000 francs in the French international balance of payments in the same period, which normally should have led to the outflow of a similar amount of gold, we have to account for about 40,000,000,000 francs, that is, half the gold held by the Bank of France today. In 1931 and 1932 the Bank of France and the French Treasury liquidated 24,194,000,000 francs' worth of foreign drafts and short-term credits held abroad. On Dec. 31, 1932, this left only 4,539,000,000 francs' worth of such paper, the approximate amount kept during 1933 for current needs. It may therefore be estimated that over 15,000,000,000 francs of gold held by the Bank of France represents foreign capital which sought refuge in Paris after most countries went off gold.

Nevertheless, about 64,000,000,000 out of 79,000,000,000 francs of gold in the Bank of France is French capital. If all the gold representing foreign capital were withdrawn from France and if the yearly deficit of the French balance of payments is to continue at the present rate of about 5,000,000,000 francs a year, it would be about seven years before the gold holdings of the Bank of France fell below the 35 per cent legal backing required for a currency circulation amounting now to 82,000,000,000 francs. In other words, it would in the normal course of events require seven years for France to be forced off gold.

With such an enormous reserve of gold and a relatively small yearly deficit in the balance of payments, France can hardly be in a desperate economic situation. She suffers only because her foreign trade has been hard hit by the depression. For example, the Lyons silk industry, which depends largely on exports, had an average monthly production of 403 tons in 1930, of 297 tons in 1931, of 191 tons in 1932 and a total of 227 tons in September, 1933. Steel production averaged 787,000 tons a month in 1930, 625,000 tons in 1931,

467,000 tons in 1932 and totaled 564,000 tons in August, 1933. Coal production has declined only 15 per cent, while the important woolen industry of the three great centres of Roubaix, Tourcoing and Mazamet in July, 1933, passed its average monthly production of 1930, thanks to the high quality of its products and an intelligent price policy.

Unemployment in France has for these reasons never been serious. It reached its record figure in 1932 with a monthly average of 273,810, and on Oct. 21, 1933, was only 231,755. These low figures are partly due to the fact that the contracts of employment of hundreds of thousands of foreign workers who went to France after the war were not renewed as the depression set in. In 1933 alone, no fewer than 200,000 of these workers are estimated to have left France. On the other hand, French unemployment statistics include only those who are wholly unemployed, and French industry during the past three years has very largely been carried on by part-time workers. In 1932, for example, 49.8 per cent of the workers were partly unemployed, though in 1933 the number dropped to 36 per cent. As French wages are normally low, the situation has caused much hardship and privation, but so many French workers are really uprooted peasants that they usually have relatives among the farmers to whom they can go for work and assistance.

Until the Summer of 1933, the French farmer fared very well in spite of the depression, for agriculture is so highly protected that it hardly feels the effects of a world overproduction of grain. By the law of May 20, 1930, the customs duty on wheat was raised to 80 francs a quintal (about 85 cents a bushel at par). Favorable climatic conditions were responsible for a very good crop in 1932 and for an exceptional one in 1933. France now has a surplus of about 70,000,000 bushels of wheat, whereas in the years before the depression she had to import about a tenth of the wheat she needed. Wheat prices, kept up only by the tariff, crumbled and Parliament passed the law of July 10, 1933, fixing the price of wheat at 115 francs a quintal (about $1.28 a bushel at par.)

The farmers, however, need money so badly that they continually evade the law by selling their wheat as low as 90 francs. Since the price of bread has been kept high on account of the price of wheat, the law works mostly to the benefit of the middlemen. On the other hand, the prices of other cereals have not been fixed, and the farmers, therefore, are increasing the area seeded to wheat instead of oats, rye and barley. The situation had become so serious that the government asked Parliament in the middle of October to impose a tax of 500 francs on every hectare (about $7.93 per acre at par) seeded to wheat which had not been devoted to wheat production for three years. Yet one bad crop would be enough to use up the wheat surplus of 1932 and 1933.

Cattle farmers have also suffered, not so much through the decreased purchasing power of the consumers as from the reluctance of middlemen and retailers to cut prices. As for wine-growers, they had a bad crop in 1932, which gave further impetus to competition by Algeria. The crop of 1933 was better, but France, the largest wine producer in the world, is also the largest importer of wines. Her relatively cold climate gives a low alcoholic content to some of her wines, which have to be "cut" with stronger wines from Spain, Italy and Greece. France, after being the second largest wine exporter in 1932—and far behind

Spain—occupied only the fifth place in 1933, with Spain, Italy, Portugal and Greece all ahead of her.

Nevertheless, the condition of French agriculture is far from desperate because of the remarkable self-sufficiency of the peasants. Yet bad conditions in the wheat, cattle and wine areas react unfavorably upon industry by reducing their purchasing power. This had much to do with the relapse suffered by French industries in the late Summer and Fall, though it was partly offset by the development of motor-bus transportation, which in the past few years has made it easy to go to the city and succumb to the temptation of buying ready-made clothes and noisy radios.

Far more serious than the condition of either industry or agriculture is France's budgetary situation. The Ministry of National Union organized by Poincaré in 1926 increased taxes to the limit. In 1927 the per capita burden of taxation in France was $57.30, as compared with $77.50 in the United States, but the per capita income in France is one-third of what it is in America. In spite of an 80 per cent depreciation of the franc, the burden that the war left the government to bear still represents about one-third of all public expenditures. French taxpayers may have been willing to give their lives for their country, but they object to sacrificing their money. A relatively slight cut in their incomes led to a nation-wide outcry against the lavish expenditures of a government which, in fact, does not imitate the financial conservatism of the French household. It is estimated that one-half of French private incomes has hardly decreased in the past three years, while the other half has suffered a 35 per cent reduction.

The reaction against paying already excessive taxes has expressed itself in fiscal evasion on a grand scale. In 1932 tax receipts fell off and governmental expenditures rose to such an extent that the Treasury had to borrow 17,000,000,000 francs, and in 1933 an additional 15,000,000,000 francs. The new burden resulting from the interest on these loans has more than offset a yearly saving of 1,050,000,000 francs achieved through the conversion of government bonds in September, 1932.

While other expedients were resorted to, some of them worthy of a Central American republic, such as the organization of a national lottery, an energetic campaign was launched against fiscal evasion, especially by automobile owners. Nevertheless, a deficit of 3,600,000,000 francs for 1933 had to be carried over to the 1934 budget, which provided for additional expenditures of 2,900,000,000 francs and for a decrease in receipts of 1,218,000,000 francs. The three items made a total deficit of 7,718,000,000 francs for the 1934 budget, but economies brought it down to 6,000,000,000 francs.

An important factor in creating these difficulties of French public finance is the cancellation of German reparations at Lausanne. Although France has so far refused to carry out the Mellon-Bérenger agreement funding her debt to the United States and has stopped paying instalments on her war debt to Great Britain, she still loses by the deal. Every year she received about 2,000,000,000 francs more from Germany than the amount she had to pay to the United States and Great Britain. France's budget deficit was also increased by outlays for social insurance.

The Daladier government presented to Parliament in October a long and carefully drafted bill calling for increased taxation and for decreased ex-

penditures. It proposed a 15 per cent tax on interest and dividends from all securities with the exception of French Government bonds. These bonds represent 300,000,000,000 francs and yield an annual income of 12,000,000,000 francs, which is about half the total income from securities in France. The proposed tax would consequently be ineffectual, and naturally the capitalistic interests of the country oppose it as unfair discrimination between government bonds and industrial securities. On the other hand, the bill proposed a minimum 6 per cent cut in the salaries of all government officials. It was on this issue that the Daladier and Sarraut Cabinets were overthrown. The French civil servants number over 1,000,000, and have enormous electoral influence which few Deputies are willing to antagonize. The Socialists were particularly opposed to such a measure and instead advocated inflation to solve the problem. On Dec. 8, however, they withdrew from the budget discussion, which enabled Premier Chautemps at dawn on Dec. 11 to get the whole budget through the Chamber. Doubtless, the fear of inflation was a strong incentive to Deputies to vote unpopular taxes.

Inflation, which is now becoming an outstanding issue in France, is so far advocated only by the Socialists and by those economic interests which depend on foreign trade and the tourist business. Since the depression in France is almost wholly due to the decline of exports and the tourist trade, inflation, combined as it always is sooner or later with the abandonment of the gold standard, would no doubt help to bring about recovery. But the French people have not forgotten the dark years of the post-war inflation when they lost four-fifths of all their savings. A new inflation would arouse those whose income is derived from government bonds, and since the Radical-Socialist majority represents the thrifty middle class, it cannot take such a step.

Other measures have been proposed to improve French foreign trade. In 1932, France's trade with her colonies amounted to 25.1 per cent of her total external trade as against 19.6 per cent in 1931. Algeria, in 1931 her fifth largest customer, now holds the first place. The government accordingly summoned a Colonial Conference in June, 1933, to begin studying the possibilities of strengthening the economic bonds between France and her colonies, but nothing so far has been accomplished.

Worse than any of the results of economic depression and unemployment is the change that has taken place in the past two or three years in the outlook of many French people. The peasants who loved to work hard on their rich farms, the workers who had kept up their high standards of craftmanship, the middle class of storekeepers and civil servants whose ambitions never went beyond a small cottage with a little garden, are all becoming increasingly dissatisfied with their lot. The radical propaganda of public school teachers is slowly bearing its fruit. But most of all, people are more and more eager to buy all the chromium-plated and noisy products of the machine age. Luxury these days takes the ostentatious form of shiny automobiles which arouse the envy of those who cannot afford them. The French are beginning to know haste and, although they still appreciate good food and leisurely conversation, there are many who despondently tell you that "France is becoming Americanized."

French Imperialism in China

By WILBUR BURTON

[An American journalist residing in China, Mr. Burton has recently visited Yunnan, obtaining the information which is the basis for the following article.]

CHINESE accusations that France and Japan have an understanding with regard to spheres of activity in China have drawn attention to the French Far Eastern empire. Except for the leased territory of Kwang-Chau-Wan and the small concessions in Tientsin, Shanghai, Hankow and Canton, French power is concentrated in Indo-China, though Frenchmen do not deny that their country has special interests in Southwestern China, especially in the rarely visited province of Yunnan. In recent months Chinese commentators, aware that the blow struck by Japan at the balance of power through the conquest of Manchuria will inevitably have repercussions elsewhere, have been declaring that French annexation of Yunnan is imminent. Such an allegation has been based not only on belief in a Franco-Japanese understanding for the partition of China, but on an apparent increase of French activity in the province.

Reports to this effect were so widespread that I made a trip to the province to investigate them and to study French affairs there. I found nothing to indicate that the French were contemplating any drastic change in their present policy, but I did discover an extraordinary monopolistic control that appears to be increasing.

The only practical way to travel to or from Yunnan is over a railway through Indo-China owned and operated by the French. It runs from Haiphong, a port on the Gulf of Tonkin, to Hanoi, capital of Indo-China, and thence to Yunnan-fu, capital of Yunnan. While it is only slightly over 530 miles from Haiphong to Yunnan-fu, the Yunnan section of the line of 288 miles is through mountain country that rises from about 250 feet on the Yunnan-Tonkin border to 6,400 feet at Yunnan-fu. As there is no express service and, because of bandits and the nature of the country, the train does not run at night, the trip from Hanoi to Yunnan-fu takes three days.

Except for limited portions all Yunnan is extremely mountainous, being mostly on the same great Himalayan plateau that includes Tibet and much of Szechwan. Some of the peaks of the province are 22,000 feet high. As a result it has always been isolated from the rest of China. The Yangtse River on its northern boundary is navigable only by small boats, and it takes twenty-three days by caravan to travel from Yunnan-fu to Sui-fu, the river port from which it is possible to travel by slow stages by boat to Shanghai. This route requires not less than six weeks.

Another route between Yunnan and the rest of China is by caravan from Yunnan-fu, or from Mengtsz, which is on the railway, to Nanning in Kwangsi and thence by the West River to Canton. This route might be traversed in a month. On the other hand, it requires less than a week to reach Yun-

nan-fu from Canton by way of Haiphong, and from Shanghai the trip can be made, again through Haiphong, in ten days or less. But caravan travel is expensive, even in China, and little but opium can afford it.

Years ago there was talk of building a Yunnan-Burma railway, but the British have so far never offered this challenge to French influence, nor has it been suggested recently. Consequently, France controls the door to Yunnan without opposition.

As shipments in bond through Indo-China are allowed, all goods destined for Yunnan are inspected by the French customs in Haiphong. All persons entering or leaving Yunnan naturally have to obtain French transit visas, though, so far as I am aware, such visas are never refused to either Europeans or Orientals, but travelers are subjected to considerable surveillance. The transportation of merchandise, however, is frequently prohibited. No arms or munitions from non-French sources can enter Yunnan through Tonkin, and military supplies, even from French sources, must have a special permit from the French authorities. Needless to say, a government that is friendly to the French never has any difficulty in obtaining the arms and munitions that it desires. When I was in Yunnan-fu delivery was being made of munitions amounting to $1,450,000 (U. S.), a sum which, incidentally, is nearly 60 per cent of the province's budgeted revenue.

Radio receiving and sending sets are classed as war supplies by the French and their commercial importation through Indo-China, even from French sources, is prohibited. In Yunnan-fu I saw a set which a Chinese had imported from Shanghai through Sui-fu; the cost of transportation had exactly equaled the original cost in Shanghai. Special transit permits are



French Indo-China and Adjoining Territories

necessary for anything that might be used to manufacture munitions. For example, the British hospital in Yunnan-fu must obtain permits from the French consul there to import various indispensable acids. Airplanes also are classed as war material, and in 1932 transit was refused for six American airplanes purchased by the Yunnan Government, although, after protests from the State Department in Washington shipment was finally allowed. When the Yunnan Government subsequently purchased four more airplanes, they were bought from a French firm.

Various taxes are imposed on all goods shipped through Indo-China, except tin exports from Yunnan which are exempt by treaty. The amount of the taxes is proportional to the duties on goods for consumption in Indo-China. Since French goods imported into Indo-China naturally pay a lower tariff than that on foreign goods, they also enjoy an advantage in transit. In effect, therefore, French goods have an advantage over non-French in entering Yunnan.

Chinese goods suffer the same discrimination as foreign goods in transit through Indo-China, although a treaty which had not yet been ratified by France at the time of writing would give Chinese some advantage over other non-French goods. The total transit taxes now vary from 5 per cent *ad valorem* for French goods to 15 per cent *ad valorem* for non-French goods.

Both transit taxes and freight rates are known to have been radically altered on occasion without warning to foreign merchants and presumably in order to favor French business men. Some years ago, for example, an American made a bid in competition with the French and British to supply piping for a water project of the Yunnan Government. The American's offer was frankly a dumping price which he was confident could not be beaten, even allowing for the advantages the French bidder would enjoy. Yet the Frenchman obtained the contract. Later, the American discovered that about the time the pipe began to arrive in Haiphong, it was announced on a bulletin board in the Hanoi train depot, where all official notices about the railway are posted, that the transit duty on piping had been temporarily lowered while another announcement by the railway management proclaimed a reduction in freight rates on piping.

In addition to the monopolistic measures already cited, there are many complaints about delay and breakage in the transportation of non-French goods. French goods are said to reach Yunnan from Haiphong promptly, while non-French usually require from two to six months.

It is not surprising, therefore, to find that more than 60 per cent of the foreign trade of Yunnan is French, although in the rest of China French trade is far behind that of Great Britain, the United States and Japan. In Yunnan, American trade is less than 20 per cent of the total, British trade about 15 per cent, while all other non-French foreign trade—chiefly German and Japanese—is only 5 per cent. Except for one German, who is employed half time as technical adviser of a small Chinese hydroelectric company, there are now no non-French business men in Yunnan. What little foreign business, other than French, exists, such as that of the Standard Oil Company of New York, is in Chinese hands.

Yunnan, however, is not one of the major trading areas of China, although it is the second largest province in the country, with an area of 146,714 square miles. Its population is only about 11,000,000—two-thirds are Chinese and one-third aborigines—most of whom are exceedingly poor. Foreign trade, exclusive of arms which are not listed in the Chinese customs reports, amounted to $20,556,194 (U. S.) in 1930, but dropped to $4,582,921 (U. S.) in 1932.

Tin and opium are the two major exports of Yunnan, the former chiefly to the United States and the latter entirely to Chinese markets. Tin production amounts to about $3,600,000 (U. S.) a year and opium production to more than three times that amount. Yunnan, the most opium-ridden area of China, produces the best opium in the country. About 2 per cent of the arable land in the province is devoted to cultivating poppies. Rice has to be imported and, since arable land is small in proportion to the total area, starvation always exists in some section of the province. Opium is the chief source of military "squeeze," supplies 20 per cent of the official provincial revenues, and is more widely smoked by the Chinese than in any

other province of China I have visited.

Besides tin, Yunnan has a fair supply of many minerals, including coal, lead, zinc, copper, antimony and silver, and there are extensive, but extremely low grade, iron deposits. Today tin alone is being exploited to any appreciable extent and its mining and refining are conducted by a Chinese company under auspices of the government. The French, who have never sought to develop any of the ore deposits, are content, for the present at least, with operating the railway and the control that it gives them.

The government of Yunnan consists chiefly of a military oligarchy headed by an aboriginal war lord named Lung Yun. He came to power a few years ago after several reverses, during one of which he took refuge in the French Consulate. Since then order has been restored, all the Reds have fled or have been executed and Yunnan is the most peaceful region in China. The government gives lip loyalty to Nanking, but actually is almost completely independent of the rest of China.

General Lung Yun does not appear to be unduly friendly to the French, but since their good-will is essential to obtain military supplies, he is obviously in no position to flout them. Further, at least according to Chinese charges which are supported to a considerable extent from authoritative neutral sources, the French maintain a firm grip on Yunnan's finances, which are in a critical state. The Yunnan dollar constantly fluctuates, usually downward, because of the unstable economy of the province and, it is alleged, because whenever the government establishes credits in Shanghai or Hongkong through sales of tin or opium, these credits are bought by the Banque de l'Indochine, which has a branch in Yunnan-fu and is the only foreign bank there.

French ambitions in other regions of Southwestern China are not obvious. Ever since 1914 a project has been pending for the construction of a railway from Yamchow, on the coast of Kwangtung between Kwangchowwan and the Indo-China border, through both Kwangsi and Kweichow to Yunnan-fu and thence to Chungking, in Szechwan, by way of Sui-fu. A contract for such a railway was negotiated between the old Peiping Government and the Banque Industrielle de Chine, which subsequently failed. Some money, which has never been repaid, was advanced to the Peiping Government by the bank before its collapse. The contract, which may be assigned to another French company, contains no clause by which it becomes void if its terms are not carried out; so far France has not assigned the contract and at the same time has refused to abrogate it. Thus, in addition to her railway now operating in Yunnan, she has certain vested interests throughout Southwestern China as well as the special interests arising from territorial propinquity.

But other nations besides Japan and China are concerned with the course of French policy in this corner of Asia. The British possession of Burma and Tibet, over which Great Britain virtually maintains a protectorate, bound Yunnan on the west. Szechwan, in which the British are interested and part of which Tibet claims and is even now fighting for, is on the north. Moreover, the Soviet Union is doubtless not wholly unconcerned about the future of Tibet which now forms a buffer between Russia and British India. France's Far Eastern empire and her imperial ambitions are in consequence deeply involved in the rather delicate balance of power in Central Asia.

Progress—Chicago Style

By ROBERT MORSS LOVETT

[Mr. Lovett—student of social movements, literary critic and Professor of English in the University of Chicago—is a frequent contributor to American periodicals.]

THE century of Chicago's history is divided by events of which the two world's fairs are not the least significant. The Columbian Exposition marked the close of a period during which the city retained some of the aspects of a frontier boom town, a period of speculation and sporting, of easy money, easy manners, easy morals. The fair of 1893 was part of a concerted movement toward what was vaguely called culture, of which the Chicago Symphony Orchestra, the Art Institute, the university and the architectural genius which brought forth the Auditorium, the Monadnock and the Field wholesale building were evidence. American humor made merry with the theme of Chicago's energetic pursuit of culture, but the achievement was nevertheless real. In other respects the transition from an overgrown Western village to a modern metropolis was less fortunate. In both characters Chicago showed its usual tendency toward exaggeration.

In the forty years after 1893 Chicago became internationally famous for its organized crime, official corruption, financial betrayal, racketeering and gang wars. There is no doubt that the present exposition has redeemed in a measure the reputation of the city. It has brought a new and favorable kind of publicity. Henry Justin Smith, managing editor of the *Chicago Daily News* and historian of the city, remarked at a recent gathering that the visiting journalist no longer demanded at once to be taken to the scene of the St. Valentine's Day massacre of Bugs Moran's gang or to the Cicero haunts of the Capones. It is true, gang murders continue. The school system, once the pride of the city, has been wrecked. The Mayor is openly charged with unspeakable corruption. Unemployment is of vast proportions and hundreds feed daily upon the garbage dumps.

These matters no longer interest the outside public; they have been submerged in the news of the fair. The Chicago press, except the Hearst papers, played them down lest visitors should have their minds diverted from the exhibition of progress by marks of retrogression. Nevertheless, the question which the future historian will answer is, whether the celebration of the Century of Progress in 1933 marked, like its predecessor forty years earlier, an upward thrust in the career of the city, the beginning of a new forward movement, or was merely a spasm of self-induced gayety, a gesture of compensatory bravado. Was its name a prophecy or a grim irony?

Whether or not the rehabilitation of the city played any conscious part in the plans for the exposition, there is no doubt that the enterprise granted some release from the business depression. It brought visitors to the city by rail, motorbus and private car; long distance and local transportation flourished; the hotels were generally

full and figures for sales in department stores soared above those of other cities. The fair with its many concessions gave employment to 14,500 persons. Conditions of employment, it is true, were not all that could be desired, and cases of exploitation of workers by concessionnaires were reported, but the general opinion of the employed was, "It's better than doing nothing."

It is one of the paradoxes of Chicago's history that both its great expositions should have been depression fairs. The Columbian Exposition ran head on into the collapse of 1893, and had a hard time weathering the storm. The Century of Progress had the luck to unfurl its sails to a light and vacillating breeze of recovery, but the years of preparation were the darkest in the financial history of the Republic. The gay mood of optimism with which the original proponents of the fair projected and named it changed into one of grim determination to maintain the reputation of the city for making water run uphill.

The fair of 1893 lost money, and the repercussion from overstimulation of business and overbuilding left the city flat on its back for years. The fair of 1933 has paid 50 per cent on its bonds, and is likely, with a second season, to discharge them entirely. Admission fees amounted to $10,345,848. Visitors spent on the average $1.12 each, or a total of $26,084,777, which went to the concessions in varying amounts headed by the Streets of Paris with $1,465,570. Again the question arises whether the fair will be remembered as a sign and a factor of recovery in the city and country or a gallant rearguard action against retrogression.

The sound financial set-up of the fair which left no doubt of its solvency from the start was largely due to two men whose names are now rarely mentioned in connection with it—Samuel Insull and Charles G. Dawes. Several years ago Mr. Insull, as chairman of the finance committee, put his organization to work selling bunches of admission tickets, of which a considerable number were never presented. He also used his influence with corporations to obtain some of the exhibits which occupy a large space, or sometimes whole buildings. Mr. Dawes threw his vibrant personality into the sale of $10,000,000 worth of bonds. This money with guarantee funds for private exhibition buildings, paid in advance, was deposited in Mr. Dawes's bank, and, as it turned out, was insured by the Reconstruction Finance Corporation, so that the managers always knew where they stood financially.

Contracts for buildings specified from whom materials were to be purchased; personnel for the concessions was engaged through an agency which exacted a fee of $12.50 per person; uniforms had to be bought of Marshall Field & Co. Concessions paid the management a percentage of their receipts. No source of income was overlooked. All this was very different from the happy-go-lucky financing of the Columbian Exposition, the cost of which exceeded expectation and forced the sponsors to meet sudden exigencies out of their pockets. The fair of 1893 was the valedictory of the old guard—Marshall Field, Potter Palmer, Cyrus McCormick, George M. Pullman, Daniel H. Burnham—and if they groaned under its exactions they were resolved to make it worthy of themselves. The Century of Progress Exposition was the monument of their successors.

The courage of the promoters in going ahead full steam in the face of danger undoubtedly gave the enterprise from the start and before the

start an extremely good press, which was supplemented by moving pictures, radio and the other arts of publicity. Among many aspects of progress presented, that in the use of propaganda was the one most fully illustrated by the fair and its concessions. The architecture was the first great advertisement. If it was the purpose of the architects to make the fair talked about, they succeeded. Visitors entering the city by the Illinois Central were intrigued by the grotesque shapes and crude colors of the buildings rising from shore and islands drawn up by sand suckers from the bottom of the lake. No greater contrast can be imagined than that between the chaste, classical architectural forms, white as Greek statues, of the fair of 1893, and the violently cubistic structures in the motley colors of the clown which were their successors.

The contrast is significant of a change in civilization. Culture was the ambition of the late nineteenth century, a pursuit of perfection by seeking the best that had been done in the world, which led to a concept of classical unity. Technology has replaced culture as the motive of the present century. The buildings of the Century of Progress were experiments in construction, the most daring of them being the Travel and Transport Building, in which a dome hung, like a suspension bridge, 125 feet above the ground by cables attached to twelve steel towers. They were experiments also in decoration, the color scheme having been determined by Joseph Urban, who in place of the prevailing white of the Columbian Exposition used twenty-four shades of blue, green, black, yellow, red, orange, silver and gold. The architecture of the Columbian Exposition suggested repose, security, permanence through tradition if not through material; that of the Century of Progress suggested restlessness, uncertainty and evanescence, with a certain hectic gayety. An architect named it carnival architecture. Both expositions, however, needed artificial lighting to reveal fully their scenic possibilities. In the earlier fair the primitive mechanics of the electric lighting of that day were sufficient to bring out the austerity and regularity of its formal beauty; in the latter, experiments in light supplemented those in architecture, and the resources of engineers were pushed to new limits to impose upon violence and distortion the harmony of a daring stage scene set in the theatre of night.

The central theme of the exposition was the growth of science and its application to industry and the arts of life. The development of the basic sciences—mathematics, physics, chemistry—was skillfully shown. Among the applications of science, chief emphasis was laid upon communication—the telephone, radio, the timid beginnings of television, the ocean liner, the railroad, the automobile. In striking contrast to these technical marvels, however, the most popular exhibit was that illustrating the human reproductive process—a series of jars in which were shown specimens of the human embryo in various stages of development. Guards in the Hall of Science stated that more people asked to be directed to this exhibit than to any other, and that at least four out of five visitors saw it in spite of the small space, which necessitated tedious waiting in line. Supplementing this were the exhibits of the Mayo Institute illustrating the progress of medicine and surgery, and the dental exhibits. The attention given these seemed to point to an obscure recognition of the fact that life is more than meat, and the body more than that which sustains it.

The chief disappointment in connection with the fair as a record of progress lay in the obscuring of this cardinal truth. Fundamental to civilization the most important exhibit was a huge diorama which portrayed the gathering of water into reservoirs whence streams issued to spin turbines and set a current racing across the country to light farms, mines and quarries, to move trains, and awaken to life cities with their homes, skyscrapers, stores and factories. It exemplified the enormous difference between the machine age and the power age, between the industrial revolution and the technological. It reminded one that the machine by itself is a tool, an extension of the human hand, and that the possession of power in cheap and accessible form makes possible the unlimited exercise of human ingenuity to convert this machine into a thing of independent life, automatic, self-regulating, self-renewing. One wondered how many of the spectators who gazed on this exhibit saw its anticipation of a time when the functional need for man would be as limited as that for the horse, and their present lives as meaningless. The basic theme of the fair as expressed officially was "the achievements of science and their application through industry to the creation of a larger life for mankind." The achievements of science were there in abundance, and their applications, but where, one was moved to ask, was the evidence of the larger life for mankind, or even the promise of it?

This disappointment became acute on leaving the Hall of Science for that of Social Science, or Religion. It must be admitted, of course, that the subject matter of technology lends itself to exhibition in concrete form, while social progress can often be revealed only by symbols, charts and statistics. The construction of a motor-car can be shown in action, but not so the assembling of a religion or a social system. Even with this reservation the exhibits offered in the names of these last suggested a troubling doubt as to the meaning, reality and future of progress toward "a larger life for mankind."

That social science has lagged far behind technology is generally recognized, but seldom has a single occasion brought so clear a realization of the discrepancy. Some of the exhibits in the social science hall were examples of wishful thinking, others of frank cynicism. Sometimes they showed a retrograde movement even in the months since the fair was inaugurated. A diorama of Eliza Chappell's infant school in Chicago of 1833 stood next to a model of the Lane Technical High School. A visit to the corner of Addison Street and Western Avenue revealed the latter edifice unfinished, partly unroofed to the weather, standing in an immense expanse of weedy prairie suggesting land speculation, and, instead of the thousands of pupils, two bricklayers vainly trying to keep apace with deterioration. For downright cynicism there was a series of dioramas presenting changes in the life of the family. Progress in affection was shown by a family group of Colonial days over against a couple alighted from an automobile and linked in a close embrace—to the edification of passers-by; in religion, by a family gathering singing hymns versus a nearly empty church in which a servant of God addressed the microphone; in recreation by outdoor games on one hand and on the other a movie audience absorbed in a scene of osculation on the screen.

If the progress here claimed for social science seemed at times illu-

sory, the lack of vision toward the society of the future was even more marked. That this society will be obliged to take account of more than one class is evident, but so far as the social exhibits of the Century of Progress were conceived the working class might not exist. A conspicuous omission was in the matter of popular housing. There were examples of houses of steel, of glass, of concrete, but none of model tenements. There were hundreds of appliances for household comfort, all of them beyond the means of the poor. The fair appealed largely to the middle class, and its exhibits emphasized the technical progress from which this class has gained so much in comfort and spiritual satisfaction. In this rendering of the century of progress the problem of poverty did not exist. Nevertheless the poor came. One can imagine the despair of a poor mother who brought her child to the Ship of Health and read the dietary there recommended, or looked at Chart 4 of the Bureau of Home Economics, United States Department of Agriculture, showing two children at a small table set with flowers, diminutive dishes and silverware "that fits," or listened to the advice, so glibly tendered, to consult physician, oculist and dentist. Even granting this limitation of interest to the prosperous, it may be questioned whether the social scientists were wise in obtruding the snobbishness of middle-class ideals, as in the case of the two charts prepared by the Carnegie Institute which showed in contrast a proletarian family called Ishmael living on the garbage dump of Indianapolis, and the "illustrious family" of the Roosevelts, equal in opportunity but differing in character and breeding.

A conspicuous lapse from progress appeared in the amusements offered to a public which must address itsel in the future to the problem of th use of leisure. Nothing more pitifull banal could be imagined than the side shows of the Midway. There was th old Battle of Gettysburg, and a nev Pantheon glorifying the recent Worl War and the statesmen and soldier who directed it. There was Ripley' Odditorium with our old friends, th ossified man, the Negro who cram four golf balls into his mouth, th armless wonder who shaves himsel with his toes. The chief source of entertainment, however, was the femal form. In the Streets of Paris it wa shown under water, diminished t inches by a clever arrangement o mirrors, and again through the pretense of a sketching class, the audience being perfunctorily supplie with pencils and paper.

The most notorious of all nuditie was procured by means of the fa dance. This was a novelty in Ear Carroll's Vanities some years ago revived for this occasion by Faitl Bacon. It was an experience to sit i the great auditorium of the concession labeled Hollywood, among an audience of perfectly respectable Middl Western, middle-class, middle-age people, all palpitating for the divin moment when the two fans were hel aloft and the naked body was full revealed. No one could deny the beaut of the spectacle, but one doubte whether the audience was entirel composed of beauty seekers. The danc was reproduced at the Streets of Pari by one Sally Rand, whose arrest, tria and sentence to a year's imprisonmen was the chief publicity stunt pulle during the entire exposition. Soo every dancing show had its fan dance and the language of the barkers inviting the public to witness it becam luridly vulgar.

It would seem as if the abandon

ment of the adult world to its vulgar ways might have been compensated for by doing something for the next generation. The Enchanted Island contained a diminutive Harvey restaurant, where a luncheon might be bought for 85 cents; slides, merry-go-rounds, miniature trains, peep-shows which used to be seen in the arcades on the Bowery thirty years ago—"Chase Me, Girls"; "Why Chickens Leave Home," "The New Sheriff." Little Orphan Annie was rendered in all her insipidity by "The French Marionettes." The Playhouse, to quote Charles Collins, dramatic critic of the *Chicago Tribune*, "represents a dream of cultivated women * * * of the Junior League—who have been provided an opportunity for experimentation by the fair." The program on one day included "Juvenile Scandals" and various numbers such as "Two Tickets to Georgia," "Caveman's Child," "Forty-second Street," "Strutters' Ball," all popular jazz songs to be heard in vaudeville houses or over the radio. "Experimentation" seems to have stopped with the reproduction of the amusement features offered to adults—with the exception of a miniature fan dance.

The name, "Century of Progress," committed the sponsors of the enterprise to an idealistic interpretation of the world. It was not their fault that they were in a measure betrayed by events, nor can they be blamed for putting the best face possible upon the matter. Nevertheless, the total effect of the fair was to raise more insistently the question—progress toward what? If the accelerated advance of technology, the increase of control over natural forces, is to lead to nothing better than a civilization of which the highest aspect is to be found in material comfort for a class which can afford it, and the lowest in the crass vulgarity of its recreations, it may be doubted whether the triumph was worth celebrating. The enormous irony of the Century of Progress was to be appreciated in the unescapable contrast between the combination of natural beauty of lake, island, lagoons, with lavish architectural decoration and brilliant illumination, against the imposing skyline of the city's façade and the sordid background of civic life in which official corruption was never more arrogant nor human misery more appalling. Spengler would surely have found here an instance of the fantastic exhibitionism with which civilizations are prone to bear witness to their decline.

Another irony of the fair appeared in the fact that its most beautiful and satisfying features were those drawn directly from the past. The Llama temple from Jehol, faithfully re-created by Chinese artists; the Maya temple, rather crudely copied; the Belgian village in its reproduction of an architecture and a way of life before the century of progress, left memories touched by pathos. The high point of the experience of many visitors was the pageant, "The Wings of the Century," in which the march of civilization was represented by scenes of travel, from the journeys afoot by Jesuit missonaries and *courreurs du bois*, through the stages of horseback, stage-coach, canal-boat, the clipper ship, the crude beginnings of steamboat and railway train, the equally primitive horseless carriage and airplane, up to the modern automobile, airship and crack trains of Pullman cars. This pageant with the accompaniment of Hamilton Forrest's music based on themes drawn from songs of the period such as "Wait for the Wagon" and "I'm Going to Alabama" stirred a certain nostalgia which

found expression in often heard comment that modern improvements seem rather to have attenuated than enriched the values of living.

Something of the same feeling was aroused by the exhibition of paintings at the Art Institute. This was the outstanding achievement of the whole enterprise, an assembly of pictures as perfect in selection as the resources of American art collections allow, ordered historically, hung with esthetic appreciation, catalogued with scholarly discretion. From the vast confusion of material triumph and vulgar entertainment, which to the weary visitor seemed sometimes to embody "the expense of spirit in a waste of shame," to turn to this noble monument of human endeavor was to find consolation for disappointment and disillusionment, to become conscious of a principle of order at work in the chaos of progress, to discern a way of salvation, of making the world a better place for man to live in.

As has been noted, the exposition was carried through in the face of a multitude of discouraging circumstances. First of all was the state of the world. The first of world fairs in 1851 was held in London to celebrate the peace which liberalism, democracy and free trade seemed likely to make always more secure. The Century of Progress was launched in a world of exacerbated national feeling. To the great powers—Great Britain, France, Germany—an invitation to a love feast in the United States seemed ironical and participation futile. Italy earned the gratitude of Chicago by erecting a building and sending Balbo and his airships. The lesser nations—China, Sweden, Holland, Czechoslovakia, the Irish Free State—were pleasantly represented. Russia was of course not invited, though she made offers which were declined.

In the second place, the exposition occurred at a time of increasing social tension and class-consciousness. As has been noted, the fair had a predominantly middle-class complexion. Many of the working class who attended were irritated by the lack of recognition of their interests and problems, by the emphasis upon aspects of progress which they no longer hope to enjoy under the present social order, by the working conditions within the grounds where many of the concessionaires had apparently never heard of the New Deal and the NRA.

Finally, the general depression limited the appeal of the fair. On the basis of the experience of similar enterprises the managers calculated that the attendance might reach a figure amounting to twenty times the population within a radius of fifty miles, or approximately 100,000,000. In fact, the attendance numbered somewhat over 20,000,000, not much larger than that of the Columbian Exposition forty years ago, and much smaller than that of the Paris Exposition in 1931. Perhaps the management is wise in draining the cup of popular interest to the dregs by continuing the enterprise for another year. It is an act of faith which may happily be justified as a feast of recovery. If, on the contrary, it is an anti-climax, Chicago may have the distinction of closing the century of progress with a fair to end fairs.

In Quest of the Lost Atlantis

By RICHARD CLAVERING

[Formerly editor of *Outlook*, an English popular science weekly, Mr. Clavering is now a contributor on scientific and other subjects to the leading English periodicals.]

THOSE who recall the late Sir Arthur Conan Doyle's *Maracot Deep* will remember how he fancifully portrayed the existence of a race of supermen living on the bed of the Atlantic Ocean. Them he named Atlanteans. The author undoubtedly drew his inspiration for this engrossing tale from the ages-old story of the lost continent of Atlantis. The majority of people have probably never heard even the name of Atlantis. To most of those who have, it is doubtless associated in their minds with pure myth—the fantastic creation of some unknown storyteller who flourished in a forgotten age. But is it myth? The recent announcement that a scientific expedition under German auspices is to attempt fresh investigation of the secrets of the Atlantic Ocean bed on lines never before tried reawakens an interest which has persisted for countless centuries.

This expedition of Count Byron Kuhn de Prorock is intended to serve the interests of archaeology; and the equipment consists of a yacht, a large diver-bell, and a submarine boat of the most modern construction. On the yacht is a strong crane for lowering the diver-bell. By far the most interesting object is this diver-bell, which is of German invention and a veritable marvel of engineering art. It has been built with very thick walls to withstand the great pressure to which it will be subjected under the water, is egg-shaped at the bottom, has three observation windows, and it is estimated should reach with safety to a depth of 750 meters. Inside is a swivel chair for the accommodation of the observer, whose task it will be to take photographs. The lighting required is supplied by a deep-sea lamp with the power of a strong searchlight which can be turned in all directions. Telephonic communication has also been arranged for between the yacht and the diver-bell, as well as the problem of maintaining a sufficient supply of healthy air for the observer while the bell is submerged. What fresh knowledge may result from the efforts of this new enterprise will be awaited with keen anticipation by all those interested in the study of archaeology.

What exactly is Atlantis supposed to have been? Briefly, the supposition is that at some time large expanses of land occupied much of the space now filled by the waters of the Atlantic Ocean. The whole formed an archipelago; the biggest island in the group was named Atlantis and sustained a large and advanced civilization. The earliest record is found in Plato's dialogue known as *The Timaeus*. In it he tells a story which his great-grandfather had heard from Solon, one of the wisest of the ancient Greeks. According to him, Atlantis was a great and wonderful empire "which had rule over the whole island [Atlantis] and several others, as well as over parts of the [opposite] continent." Not content with the territory already

theirs, the powers in Atlantis embarked on fresh conquest, and succeeded in subjugating those parts of Libya which lay within the Pillars of Hercules (Gibraltar) as far as Egypt, and extended their possessions in Europe to embrace Tyrrhenia (Italy). Still not content, they essayed eastward and attacked Greece itself.

Whether Solon's story at this point becomes prejudiced with national pride in the ability of his own people to prevail where others had fallen, or whether he is narrating actual history, cannot be decided. But he describes how the Athenians addressed themselves with conspicuous valor to the attack of the invading Atlanteans and not only vanquished but expelled them finally from the whole of their possessions within the Mediterranean area. This is supposed to have happened, roughly, about 9600 B. C. At a later period—according to Solon—violent floods and earthquakes occurred, and during one or more of these disturbances the island of Atlantis vanished beneath the sea.

If the problem of Atlantis were associated only with Plato's account of Solon's story, it might well be regarded as the product of his own invention for the purpose of extolling the prowess of his nation and adding to the reputed greatness of his ancestors. It is true that for long scientists refused to credit the story; but more modern study of geology and paleontology, together with certain discoveries at the bottom of the sea, have arrested skepticism by bringing the legend well into the sphere of possibility.

One of these discoveries occurred in the Summer of the year 1898. A cable was being laid from Brest to Cape Cod when a strand broke at a point about 500 miles north of the Azores and at a depth of about 1,700 fathoms. In an attempt to fish up the broken strand, the grappling-irons brought to the surface soil and broken pieces of rock which microscopic examination showed to consist of lava. Further investigation revealed that the ocean bed at this point has all the characteristics of a mountainous country with high peaks and seared with deep valleys. The eruption of Mont Pelée, in the West Indies, during the early part of the present century taught geologists much by giving to science the data from which water-cooled lava can be distinguished from that which has cooled on land. When the volcano erupted, the lava stream divided; one part, flowing into the sea, solidified suddenly; the other congealed on land and took weeks to cool. Microscopic studies of samples of both these lavas revealed a marked difference in their crystalline structure.

Now, the species of lava fished up from the bed of the Atlantic in 1898 (which is preserved at the Musée de l'Ecole des Mines in Paris) was such as had congealed under atmospheric conditions. Had it solidified under 1,700 fathoms of water, it would have crystallized. The obvious inference is that the volcano which ejected this lava must have been well above the surface of the ocean at the time of the eruption, because the cooling had taken place on land. Furthermore, geologists claim that lava exposed to sea-water disintegrates to an appreciable extent in something like 15,000 years. The particular lava under discussion was undecomposed, and if the geologists' estimate is correct it indicates that the eruption in question must have occurred less than 15,000 years ago—a mere yesterday in geological time.

There are striking structural resemblances between Europe and North America and between Equatorial Africa and Brazil. Many of the moun-

tain ranges on both sides reach the ocean, to be cut off with an abruptness which suggests that in former times they probably continued beyond their present limits if they did not actually join one another. The Azores, Tristan da Cunha, and the St. Paul's Rocks are quite possibly the last vestiges of a mighty continent which lay between Africa and South America and has sunk beneath the sea. Similarly, the islands of the West Indies doubtless formed part of a far greater whole; and the fact that these lie well within the zone of earthquakes is an interesting one to note.

During the last century the naval authorities of England, Germany and the United States took deep-sea soundings of the Atlantic which resulted in its entire ocean-bed being mapped out. This revealed the existence of a great ridge which, commencing near the coast of Ireland, traverses a southerly direction, embraces the Azores, and cuts across southwest to the coastline of South America near the Amazon River. From there this ridge turns eastward, takes in the St. Paul's Rocks, changes its course north of the island of Ascension, and goes due south to the island of Tristan d'Acunha. The average level of this great ridge is about 9,000 feet higher than the bed of the Atlantic, and it is reasonable, therefore, to assume that these islands mentioned are the mountain peaks of some submerged continental range. Another result of these deep-sea soundings was to establish the fact that this ridge is covered throughout its length with volcanic detritus, and there are evidences of volcanic disturbances on a very large scale. About 150 miles from the Straits of Gibraltar, where Plato indicated the former location of Atlantis, it was noted that the soundings decreased in the course of a few miles from 2,700 fathoms to 1,600.

From such facts as these the hypothesis that there once existed wide expanses of land in the Atlantic Ocean would appear to be very well justified. At any rate, it is removed from the realm of mere surmise. That this land has gradually disappeared beneath the sea in space of time as the result of volcanic activity, leaving here and there a few remnants of its former whole, is an opinion held by scientists of high standing and world repute. Moreover, the consensus of their opinion favors the relatively recent existence of a major portion of it above the surface of the sea, forming an archipelagic chain such as Plato described.

There is also biological evidence which appears to support the Atlantean theory. For instance, the monk seal remains close to land and does not frequent the open ocean. One species is found in the Mediterranean, the other in the West Indies; the two separated by the thousands of miles of the broad Atlantic in which neither is known to exist. The case of manatus is similar. One is found off the West Coast of Africa, the other inhabits the South American coast; and both of them are partial to the proximity of land. The wide range separating these marine mammals would appear to indicate that their ancestors followed a coast-line which has to a great extent ceased to exist.

The burrowing amphisbaenidae, which are generally limbless, and spend most of their existence in ants' nests, present an interesting study. They are a very large family and found only in the region of the Mediterranean, Africa and America. It would be impossible for them to cross the ocean; yet they are found in this last-named continent, whereas not a single one is known in Asia, which has

land connection with Europe. Of the ants, certain ones found in the Azores are native also of America. Similarly, many of the moths and butterflies in the Canary Islands are identical with those of America. Yet ants, moths and butterflies, whose span of life is at best very short, could not possibly navigate the wide expanse of the Atlantic. The ocean is an insuperable barrier to earthworms also, but those found in Europe and North Africa are identical with those in the islands of the Atlantic.

How did these several creatures reach their different localities? Certainly not by an ocean way. The only alternative appears to be the former existence of land where now the sea holds sway.

Anthropology is not lacking in offering material which is equally suggestive in favor of there having been land fit for human habitation in the Atlantic Ocean which no longer exists. Archaeologists are aware that Europe was visited by a certain migrant race many thousands of years ago. This race has been named the Crô-Magnon, or Aurignacian, because of the places where the earliest discoveries concerning them were made. In 1852 remains of a particular and distinct people were found in a grotto at Aurignac; and later M. Lartet, a French anthropologist, discovered five skeletons in a cave close to the little hamlet of Crô-Magnon, near Les Eyzies, on the Vezère. Both these finds were identical, and showed they belonged to the same race, of which Sir Arthur Keith has said that it was one of the finest mentally and physically the world has ever seen. Judging by these Crô-Magnon and Aurignac skeletons, the average height of the men of this race was well over six feet. The shoulders were very broad, and the arms short in comparison with the legs, a fact indicative of high racial development far removed from the semi-anthropoid remains of other discoveries. In every case the skull indicated a thin, prominent nose, high cheek-bones and a massive chin. It has been noted by Broca that the brain capacity of a Crô-Magnon woman surpassed that of the average male of today.

Other burying-places of the Crô-Magnons have been discovered, and they reveal much concerning this early race. For instance, they disclose evidences of high art in more directions than one. The walls of these Biscayan caverns are adorned with drawings and paintings, and not infrequently, bas-reliefs, of the human form and animals executed with such regard for correct proportion, allied with grace of technique and true reproduction as evince a highly developed esthetic taste equal in many respects to that of modern times. The people who produced such works of art could not be classed as savages. Remains of mantles made of shells exhibit a love for beauty which doubtless characterized the Crô-Magnon woman and lent charm to the wearer. The implements of flint are masterpieces of the flintmaker's art, and there are instruments fashioned from bone and horn which show an inventiveness of a very high order.

Evidences of this Crô-Magnon industry have not so far been met with in Central or Eastern Europe. It centres in Southwestern Europe and must have appeared there when the rest of the continent was inhabitated by people not far removed from a semi-anthropoid type commonly known as Neanderthal man. Such a high order could not have been developed in a few centuries—it was, doubtless, the outcome of many thousands of years of progressive evolution somewhere.

But where? And how did it reach Europe? Not from the East—the traditional birthplace of the human race—for the reason just stated, and certainly not from the North. The race who introduced it into Europe must have made their entry from the West or Southwest. That they did so by a land route is indicated by the fact that not a single boat nor drawing of a boat has been discovered amid the remaining traces of this race, and it is only reasonable to suppose that had so important a means of transport existed for them, they would surely have recorded the fact when they have done so of less trivial matters. The indications would seem to point to an Atlantic origin.

Two other features which supply evidence that this is most likely true are the fact that, whereas the Basque language has no linguistic affinities with any other in Europe, it strongly resembles in grammatical structure the aboriginal tongues of the vast American Continent; and also, the similarity between the Crô-Magnon skulls in Europe and the prehistoric skulls in Lagoa Santa in Brazil suggests an identity of type. What was the connecting link between peoples so widely separated by distance? The relationship between them can hardly be regarded as accidental. It may not be quite such an idle fancy as it appears to some people to suppose that they originated in a land which once existed between Europe and Africa on the one side and North and South America on the other, and spread east and west when that land began to disintegrate and finally to disappear beneath the waters of the Atlantic.

Ancient religious beliefs show a similarity in many respects which would appear to indicate a common origin. The gods of early Egypt have in many cases a counterpart in North or South America. It may seem to be working backward to allude at this stage to the Flood, but having examined briefly the contributions of geology, biology and anthropology, reference to other accounts relative to that event may prove illuminating.

The actual Genesis story is too well known to require description. Assyriologists of recognized eminence have shown that there is very intimate connection between the Genesis record and that of the Babylonian story of Gilgamesh written on the tablets of clay which the discovery of the great library of Assurbanipal at Nineveh has supplied. From the Babylonian source comes another account, that of the Chaldean priest Berosus. In each one there is an ark with its cargo of human freight, the rising waters of a flood engulfing the land and the widespread destruction of nations.

From the far-away Tupi-Guarani Indians of Brazil emerges a story which bears such close resemblance to those of the Old World that the significance needs no stressing. The creator-god Monan found mankind so bad that he decided to destroy the world by fire. A great magician named Irin Magé, however, counteracted the dangers of the fire by sending heavy rain which caused a great flood instead, and only a few people were saved. The Carib Indians of the West Indies had a similar record of a great deluge, as had also the Macusi tribe and the Tamanacs. Legends of the Mexican Indians speak of a great flood in which Nata and his wife Nena escape destruction in a hollowed-out cypress which does service as a boat. Another of these legends tells how a giant named Xelhua, having ascended a high mountain to save himself from the flood, built the pyramid of Cholula as a place of refuge in case of a

second deluge. This story is suggestive of the building of the Tower of Babel in the Genesis story.

The Seminoles and the Choctaw tribe of North America possessed a history of the Creation which closely resembles the biblical account. First, there was nothing but the primeval waste of waters, then land appeared and green grass. In the centre of the land rose a high hill on which was the home of a great god, the "Master of Breath," who fashioned men from clay.

Brochica, the hero of the Chibchas Indians of Columbia, carrying the world upon his shoulders, is but a variation of the Atlas myth of the ancient Greeks. The Mexican god Quetzalcoatl is clearly Osiris of Egypt, and Ciuacoatl is Isis. There are pyramids in Egypt and there are pyramids in Mexico. The mummification of dead bodies practiced in the former country is also to be found in the latter, as well as in Peru.

It can hardly be a matter of coincidence that peoples separated by the great distance of a mighty ocean should possess so much in common, of which much is identical, at a period in the history of man when the crossing of that ocean would appear to have been an impossible achievement. It may be argued by some that these and many other Egyptian influences reached America by way of Asia and the Pacific at its narrowest part. But they are hardly likely to have passed through such countries as India and China without leaving behind clear impressions in those countries, which is not the case, or themselves receiving an infiltration of new ideas which clearly did not happen.

Egyptians in the reign of Necho are supposed to have made a voyage to the southernmost part of Africa, and could, therefore, undertake long sea voyages. But if, on that assumption, it is suggested that they crossed the Atlantic, it may well be observed that long voyages in the constant proximity of land to which resort can be made at any time is a very different undertaking to that of essaying across several thousands of miles of watery isolation. If the Egyptians did cross the Atlantic, it is pertinent to inquire why they and similar nations did not continue to do so, instead of leaving it for Columbus to make history by his first memorable voyage in A. D. 1492. Moreover, many archaeologists are of the opinion that much which is called Egyptian actually originated elsewhere, and reached Egypt from a westerly direction.

If, on the other hand, Atlantis once existed as the birthplace of what afterward became common to both sides of the Atlantic Ocean, and dispersion took place to the east and to the west when that continent began to disintegrate, a far more feasible solution seems to offer itself.

That great movement has taken place in the bed of the Atlantic Ocean and is still taking place, none can doubt. Only so long ago as August, 1923, a vessel was sent out by the Western Union Telegraph Company to search for a lost cable, which had been laid about twenty-five years before. Soundings were taken at the exact spot and revealed that the bed of the ocean had risen nearly two and a quarter miles during that short period! Such a fact as this offers only one obvious conclusion.

Perhaps soon—perhaps only in years to come—the inventiveness of science may find some means of wresting from the depths of the Atlantic some of its secrets. Till then Atlantis must remain a matter of interesting speculation.

Current History in Cartoons



Gone nudist

—Chicago Tribune



The hungry boys

—Raleigh News and Observer



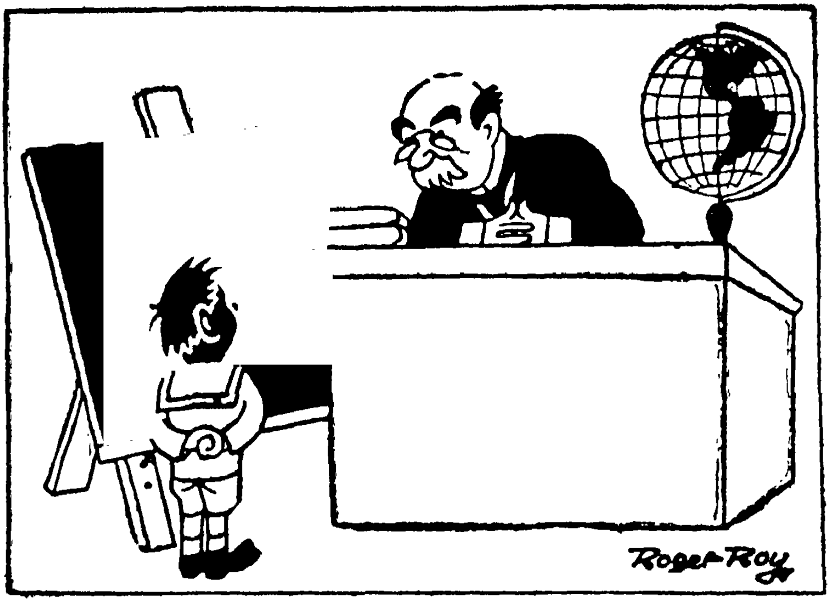
Admitted at their own urgent request

—New York World-Telegram



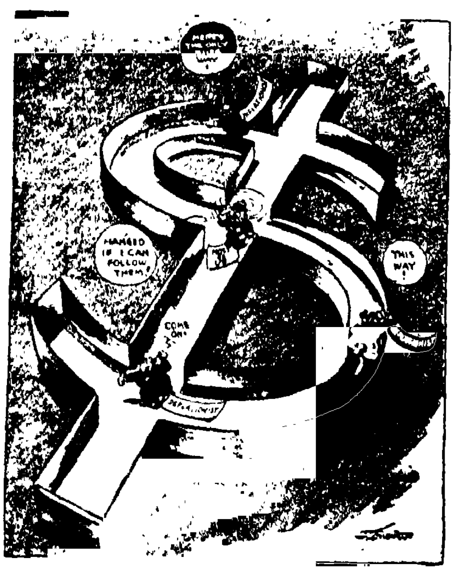
Look out, Brain Trust!

—Memphis Commercial Appeal

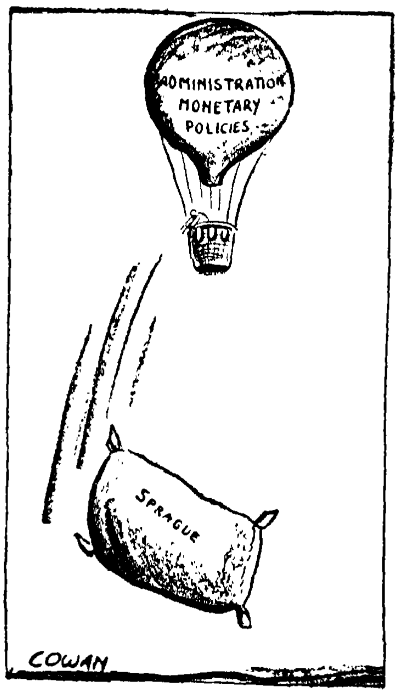


"Name one of the principal resources of America"
"Inflation"

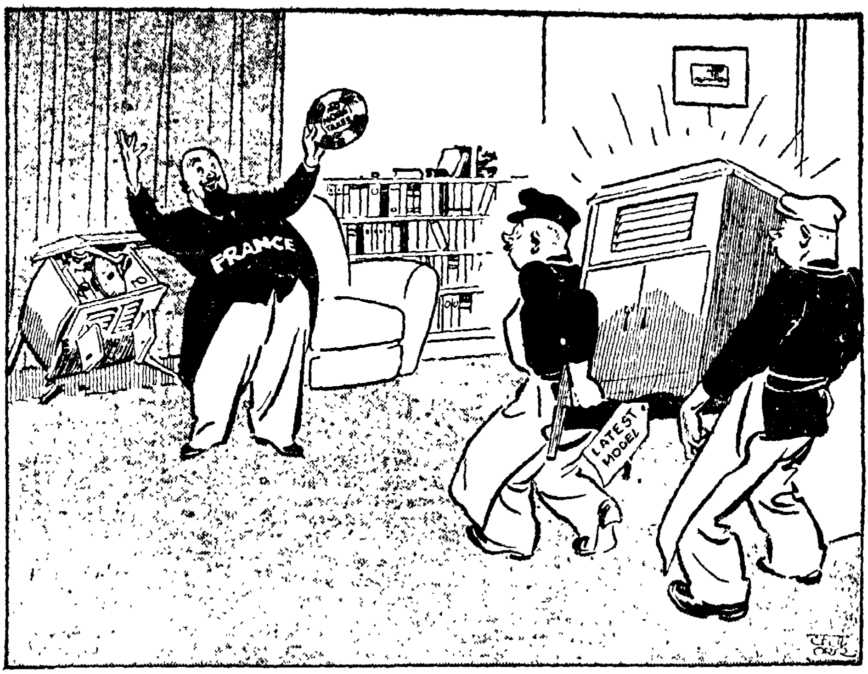
—*Oeuvre*, Paris



The mystic maze!
—*Knoxville News Sentinel*



Dropping the ballast
—*Boston Evening Transcript*



M. France: "Ah, the new Cabinet. Now I shall be able to play my favorite record again

—Glasgow Record

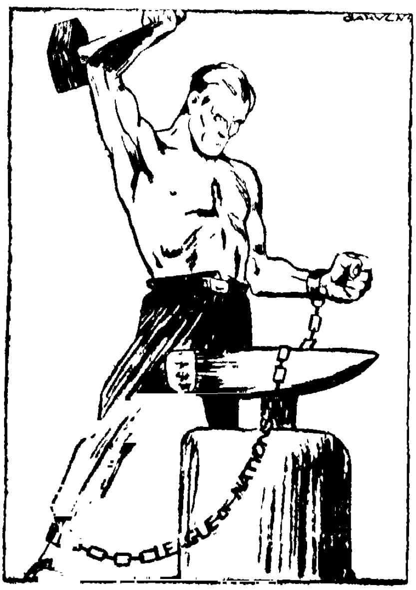


Messenger: "Mr. Litvinov to see you, sir"
Mr. Roosevelt: "Show him in"

—London Daily Express



Mr. Henderson. "I feel that I am not getting the support I am entitled to"
—*London Daily Express*



At last Germany breaks her chains!
—*Kladderadatsch,* Berlin



The German Elections—"Now then, what is your opinion of the Nazi régime?"
—*Le Canard Enchaine,* Paris

A Month's World History

The Breakdown at Geneva

By ALLAN NEVINS
Professor of American History, Columbia University

BECAUSE all hope of disarmament seemed to be lost in a welter of political animosities, the United States in November quietly withdrew its delegate from the Disarmament Conference. Ambassador Norman Davis, in explanation, repeated what he had often said before — that the United States stands ready to assist in reducing armaments, but is resolved to remain aloof from the complications of European politics. When he sailed for home on Nov. 4, having lingered hopefully in Geneva for more than two weeks after Germany precipitated the adjournment of the conference, most observers thought his departure had an air of finality. The Nazi-controlled German press, in fact, leaped upon the news with enthusiasm and spread across its sheets such flamboyant headlines as "America's Knockout Blow to the League of Nations."

It is difficult to believe that the League as an instrument of international policy has not been greatly enfeebled by recent events. Premier Mussolini has restrained his eagerness to transfer the question of disarmament from Geneva to a meeting of the signatories of the Four-Power treaty under his presidency, but only because he has realized the need of moving carefully and discreetly, especially where France is concerned. Prime Minister MacDonald has considered it expedient to urge France to show a more friendly attitude toward Germany and a willingness to discuss their differences outside the Disarmament Conference. Most of the chancelleries of Europe have been conspicuously cold to Geneva. In that city Arthur Henderson, president of the conference, has held the citadel alone except for a few minor delegates and experts. Rising irritation over his difficult position prompted him on Nov. 15 to threaten the chief delegates, not one of whom was in Geneva preparing for the plenary session of the conference set for Dec. 4, that if they did not return he would resign his presidency.

Mr. Henderson's position in British affairs is peculiarly strong. Since his recent re-election to Parliament, primarily on the disarmament issue, and the enormous success of his Labor party in the English municipal elections last month, he has become a political leader with whom the present National Government must reckon. The increasing unpopularity of Prime Minister MacDonald's Cabinet may possibly bring a general election in the not distant future. In such an event Mr. Henderson could conceivably damage the chances of the pres-

ent government if it should have shirked its commitments to the cause of disarmament. Therefore his sharp statement from Geneva on Nov. 15 resulted in an emergency Cabinet meeting, following which Sir John Simon was immediately dispatched to Geneva. In Paris he was joined by the French Foreign Minister, Joseph Paul-Boncour, who had also readily responded to Mr. Henderson's call, since in recent months France, face to face with Hitlerism, had become the most conspicuous champion of the League. Neither Minister, however, was able to bring to Geneva any enthusiasm or any concrete proposals for a disarmament convention.

Sir John Simon, who, as spokesman for the three powers endorsing the disarmament plan which Germany rejected in October, received part of the blame for Hitler's abrupt secession from the League, favored delaying the conference further until the powers had approached some definite agreement by direct negotiation. M. Paul-Boncour, on the other hand, stood firmly on France's demand for security as embodied in the proposed three-power pact. Italy was represented only in the person of a minor delegate, and declined to join in any discussion.

Since these delegates were so radically at odds, Mr. Henderson was forced to agree on Nov. 21 to an adjournment of the conference until the middle of January, when the next meeting of the League Council is to take place. The agreement provided that in the interim every effort should be made to bring Germany back into the conference, and to lay the foundation for a treaty which would limit German rearmament and scale down the effective military forces of the armed powers. Mr. Henderson declared that if no results were attained, he would resign the presidency.

News of the adjournment of the conference was well received in Italy. For three weeks a campaign against the League had been waged by the press, which is, of course, both inspired and controlled by Premier Mussolini. The Duce himself had called the League "absurd," and referred to its discussion as "mere inconclusive chatter." Furthermore, his own newspaper had published a prophecy that the Fascist Grand Council, at its meeting on Dec. 5, would "examine Italy's relations with the League in view of the departure of Japan and Germany, and the fact that the United States and Russia are not members." He permitted the rumor that Italy would withdraw entirely from Geneva to circulate for a few days. Within less than a week, on Nov. 25, he received an anxious call from Joseph Avenol, secretary of the League.

Meanwhile, reports came from Geneva to the effect that the League was to be reorganized. This would be done in such a way, it was said, as to conciliate the great powers (including the United States) who objected to the clauses providing for military action against peace-breakers, and to separate the League Covenant from the Treaty of Versailles, which is at present an abomination to Germany. When questioned in Rome about these reports, M. Avenol labeled them "pure invention." Later, after conferring with Premier Mussolini, he let it be known that Mussolini had promised that the Fascist Grand Council would not withdraw Italy from the League. It was reported on good authority, however, that he would at least demand a revision of procedure, particularly to enable the Council to act for the amendment of war treaties by a majority, rather than by a unanimous,

vote. And on Dec. 7 the world's press again carried information from the "highest quarters" in Rome that the Italian Government was carrying on diplomatic conversations looking to drastic changes in the covenant.

As for disarmament, the prediction that Premier Mussolini might try to organize a new conference under the Four-Power treaty, or a larger conference to include Russia and the United States, proved to have no substance. One insurmountable obstacle loomed before any such attempt—France. Germany had submitted her case to Mussolini in a lengthy document which Hermann Wilhelm Goering, Hitler's Minister of Aviation, had personally brought and discussed with him. Great Britain, having sided with France two months before, had now gradually approached the Italian point of view. Sir John Simon informed the House of Commons on Nov. 14 that the British Government had "communicated to Italy how well satisfied we were that the procedure which Italy has been urging on us has been the correct procedure." Mussolini also knew that Sir John had communicated with the Hitler Government, expressing confidence in Germany's love of peace, and a wish to "bring about once more a spirit of negotiation instead of keeping Germany at a distance."

The one endorsement that Mussolini lacked was that of France. For France has plainly come to look upon the Four-Power treaty, which she signed with Italy, Great Britain and Germany, as a trick and a snare. She distrusts any conference held within its framework, just as she distrusts Mussolini's own friendliness to Germany. Up to Dec. 1 she had not committed herself to any disarmament discussions outside the League, despite an increasing agitation in France itself for a *rapprochement* with Germany.

Since Hitler's first invitation to France in October to join with Germany in a two-power arms meeting, an important section of liberal and radical opinion in Paris has clamored for acceptance. As part of this clamor, the popular newspaper, *Le Matin*, contrived to publish, on Nov. 22, an interview with Hitler. The German Chancellor was quoted in such pacific terms as the following: "War will settle nothing. It will only make worse the condition of the world. * * * I am always ready, and I have given proof of it, to undertake negotiations with those who wish to talk with me." Glancing toward one of the most troublesome territorial issues still to be solved, he said: "Once the question of the Saar, which is German territory, is settled, there will be absolutely nothing that can estrange France and Germany." As to Germany's continued rearming in defiance of the Treaty of Versailles, Chancellor Hitler said nothing.

Two days later Hitler summoned the French Ambassador, M. François-Poncet, to a long interview. No communiqué was issued, but on good authority it was said that Hitler had made two proposals. The first was that France and Germany should settle the Saar question between themselves and at once, without waiting for the plebiscite under League auspices in 1935, by which the people of the district are to decide whether they will return to Germany or become French. The second proposal was that, if Germany were allowed to rearm up to a certain point, the Hitler Government would guarantee not to exceed that limit. Neither suggestion was acceptable in Paris. Though France expressed her willingness to exchange views with the German Government through regular diplomatic channels, she declined to be drawn into a for-

mal discussion. Nothing could convince her of Hitler's sincerity except a genuine effort to meet her demands for the limitation and supervision of German armaments.

During the past month instructive —and in a measure depressing—news of the naval activities of four great powers has come to light. Great Britain decided to change her program for the current year from three small cruisers and one medium-sized to two large cruisers and one small cruiser. Italy began construction of two 7,000-ton cruisers, and contemplated adding two more to her naval program for the following year. The United States launched her fifteenth cruiser, built under the London Naval Treaty, the 10,000-ton Tuscaloosa, armed with 8-inch guns. Meanwhile, the French Premier had declared: "Never have we had such an admirable military command. * * * Now that our new fortifications have been completed, we must occupy them, arm them and support them from behind with powerful reserves. We must maintain our frontiers with a great power of men and guns, and with ample reserves, which could be brought into action at the first sign of political tension." Supplementing this, even the liberal Edouard Herriot added: "Pacifism without any illusions remains our motto."

THE FLUCTUATING DOLLAR

Beginning on Nov. 2, as is related elsewhere (see page 454), President Roosevelt extended his campaign for reducing the value of the dollar into the foreign money markets. During the preceding week he had, step by step, raised the price for gold newly minted in the United States (with a statutory price at the mint of $20.67 an ounce) from $31.36 to $32.36, hoping thus to depress the dollar in terms of commodities. When he found that this had failed to produce the desired effect, he stated that he would buy gold abroad, thus pitting the dollar against gold exchange and sterling.

In Europe, Mr. Roosevelt's announcement provoked bitter criticism among the defenders of the pound and the franc. Some French bankers even went so far as to charge that the United States was trying to force their government off the gold standard. In Great Britain the most judicious financiers feared the approach of a currency war, while manufacturers were apprehensive lest the cheapening of American goods in world markets would place their own wares at a disadvantage. But President Roosevelt was not anxious to provoke the Bank of England and the Bank of France to retaliation and proceeded with great circumspection. The Reconstruction Finance Corporation empowered the Federal Reserve Bank of New York to buy, as its agent, certain quantities of gold in Paris or London. What these amounts were was not disclosed, but they were said to be small, totaling for the whole month, according to one estimate, not more than 15,000,000 francs.

Feeling certain, however, that President Roosevelt's policy was now definitely one of inflation, speculators in London and Paris opened a drive against the dollar. During the first week its fall was not spectacular, but beginning with the second week it dropped faster and faster, so that in London by the middle of November it had reached $5.52 to the pound, as against $4.77 on the first of the month, and in Paris it went to 14.88 francs, as against 16.96 a fortnight earlier. At this point fear was expressed that the dollar was no longer under control. Alarming estimates were made of the flight of American capital to London for investment in British securities and

gold. The Reconstruction Finance Corporation, which had continued to raise the price for domestic gold almost daily, suddenly became cautious and steadied it at $33.56, keeping it there for five days. Because of the nervousness of the foreign market, rumors exercised considerable influence on the situation. For instance, the drop in the dollar was partly due to sensational reports, following the long leave of absence granted to Secretary of the Treasury Woodin and the resignation of his Under-Secretary, Dean Acheson, both of whom were regarded as advocates of "sound money." But when reports were cabled abroad that the opposition in the United States to Mr. Roosevelt's financial policy was growing formidable, short speculators in Europe began to cover their positions and the dollar moved upward. After various fluctuations it regained some of the lost ground, and stood at the end of the month at 16.37 francs, and $5.17½ to the pound.

The first effect of the fluctuation of the dollar upon foreign finance and business was to instill a nervous uncertainty into the stock and commodity markets. French business men predicted that it might even paralyze international trade. London saw the previous encouraging rise in British commodity prices halt and hesitate. The pound soon developed an incorrigible tendency to climb in relation to the gold franc, and in fact at the end of November reached 84.25 francs, as against 80.50 on Nov. 1. That it did not rise higher was due to the constant activity of the British Equalization Fund, which, with resources of £300,000,000, sold pounds in order to keep their value under control. This process of selling pounds against francs and turning the francs purchased into gold at the Bank of France constituted a heavy drain on France's gold stocks. The Bank's loss of gold reached serious proportions, till an average of 100,000,000 francs a day were going out of the country, almost 80 per cent of that amount to London. According to the Bank's reports, no less than 4,000,000,000 francs was withdrawn between Oct. 20 and Nov. 24.

An additional danger to the franc lay in the flight of private capital to London. All this created a vicious circle by which francs were sold for pounds in Paris, thereby forcing the pound to rise; the Equalization Fund then sold pounds against the franc, purchasing more French gold; and the apprehension among French capitalists increased. The chief foundation for the general concern about French currency, however, lay in the condition of the Treasury. (See the article, "The Economic Crisis in France," on page 421.) During 1933 three Cabinets had already fallen in a vain attempt to balance the budget, though the fourth, that with Camille Chautemps as Premier, has at least managed to get its proposals through the Chamber and send them on to the Senate.

WAR DEBTS

Owing partly to the instability of pound-dollar exchange Sir Frederick Leith-Ross, the British delegate sent to settle Great Britain's war debt to the United States, was totally unable to reach any agreement with the Roosevelt administration. After a month of conferences with Treasury officials he was forced to suspend negotiations and return to England. In order once more to exorcise the ghost of interest payments which semi-annually rises to haunt both governments, the United States agreed to accept on Dec. 15 a token payment of $7,500,000.

The Roosevelt Program Under Fire

By E. FRANCIS BROWN

THE honeymoon of the Roosevelt Administration ended definitely in November when it was subjected to attacks from without and dissension within. The change did not come unheralded; in fact, the opposition of conservatives in business and finance had been growing for a long while, but the timing, accidental or otherwise, of criticism so that it coincided with violence in the farm belt of the Middle West confused the public mind, however much it may have failed to dismay the administration.

The brunt of the onslaught was directed against the administration's monetary policy. (See December CURRENT HISTORY, page 333.) Though there has been not a little mystery as to the purpose of this policy, the generally accepted belief is that, through raising the price of gold and thus automatically decreasing the value of the dollar, the government seeks to lift commodity prices to a level approximately that of 1925-26. How long an interval must elapse between the reduction in the value of the dollar and the rise in the price of commodities is probably unknown; certainly it would not be instantaneous.

Between Oct. 25 and Nov. 28 *The Annalist* index of commodity prices fell from 103.8 to 101.9; for two weeks it had remained practically unchanged; then, for the week ended Nov. 14, it rose to 104.9, sagging thereafter to 102.8 and 101.9. But in the meantime the government had raised the price of gold from $31.36 to $33.85 an ounce. Apparently the gold policy either was not working or else it was working more slowly than the uninitiated had anticipated. In any event, the failure of commodity prices to rise gave the President's critics the opening they sought, while a decline in quotations for government bonds set loose the fear that in the near future the Treasury would be unable to carry out refinancing operations and thus would be obliged to have recourse to some sort of direct currency inflation. How real was the danger it was difficult to decide in the heat of the controversy that had broken out. Certainly the Treasury's success in floating a $950,000,000 loan in one-year 2¼ per cent certificates seemed to testify on Dec. 7 that the credit of the government was still sound. (For the foreign repercussions of the gold-buying policy, see Professor Nevins's article on page 452.)

From the moment on Oct. 22 when President Roosevelt announced that the gold value of the dollar would be controlled in the interest of raising commodity prices, rumbles of discontent were heard throughout the so-called sound-money circles. The rumbling grew louder and louder until by Nov. 21, when Dr. O. M. W. Sprague resigned as economic adviser to the Treasury Department, it had become a roar. Dr. Sprague protested that the administration's policy "threatens a complete breakdown of the credit of the government" and declared that

he was prepared to join in a fight against "a drift into unrestrained inflation."

A week before Dr. Sprague's resignation, Secretary of the Treasury Woodin had been granted an indefinite leave of absence in search of health and Henry Morgenthau Jr., governor of the Farm Credit Administration, had been appointed Acting Secretary. Under-Secretary Acheson, who was known to be opposed to the administration's fiscal policies, resigned. Earlier Mr. Woodin had insisted that he was "heartily in sympathy" with all the President's policies, but it was generally believed that this sympathy was inspired by the fear of something worse if the gold purchases should fail to attain the desired end. While the Secretary's leave of absence unquestionably was due to his continued illness, his departure from Washington, the resignation of Mr. Acheson and, soon after, that of Dr. Sprague seemed to indicate that the innermost circles of the administration were disrupted by measures which outsiders were assailing as inflationary and unsound.

The United States Chamber of Commerce on Nov. 18 adopted resolutions demanding "an early return to a gold basis" and decried all money experimentation. Soon afterward Bernard M. Baruch, writing in *The Saturday Evening Post,* characterized inflation as "an act of desperation." Then came Dr. Sprague's resignation—the signal for new attacks. Resolutions adopted by the advisory council of the Federal Reserve Board demanded a stabilized currency and denounced currency inflation. James P. Warburg, New York banker and former financial adviser to the American delegation to the World Economic Conference, called the administration's monetary theory unworkable and asked for an "improved and modernized" gold standard. For two weeks longer criticism of the government's monetary policy continued, drawing in men as prominent as Alfred E. Smith (who stated that he was for "gold dollars as against baloney dollars") as well as less well-known figures in American life.

The climax of what was undoubtedly only the first offensive against the President's monetary policy was reached on Nov. 28 when it was discussed by rival meetings in New York City. In the Hippodrome 6,000 or more persons gathered, while thousands outside clamored for admission, to listen to Father Coughlin, the well-known radio priest of Detroit, defend the President and fall upon his critics. Father Coughlin may have the attributes of the demagogue, but he strikes the popular note; and his audience in New York was with him, even to the extent of approving his attack on the city's former idol, Al Smith. At Carnegie Hall, where a sound-money meeting had attracted an audience of only about 2,500, speakers were continually heckled and left their hearers unmoved. The next morning observers were inclined to give the honors to the President's supporters.

Why these two meetings, seemingly unimportant, should have halted the fight against currency experimentation is any one's guess, but thereafter discussion and argument tapered off. The conservatives perhaps found themselves less in agreement, except in regard to fiat money, than they had supposed; currency radicals likewise were not united on a common policy. Moreover, even the conservatives were prepared to accept a devalued dollar, so long as it was stabilized, and some like Mr. Warburg were willing to adopt a new kind of gold standard. Thus it may be that the two groups

are not as far apart as had seemed; possibly definite lines will not be drawn until Congress meets.

In no strict sense do these lines mark class divisions. Academic economists both opposed and favored what the government was doing. Wall Street was not of one mind, nor were industry and commerce. While undoubtedly the chief drive for some sort of inflation came from the agricultural areas, these regions were no more united than were the urban centres. Superficially, it appeared that the real division was between the conservatives who wanted to adhere to what was tried and known and the liberals who were prepared to experiment within wide limits. The genuine radicals, as throughout the unfolding of the Roosevelt program, cried, "A plague on both your houses."

Any attempt to assess the public attitude toward the controversy is probably dangerous; yet certain points seem reasonably clear. No one wants to duplicate the German inflation experience. There is a feeling, however, that the "sound dollar" has worked unfairly, to the debtors' disadvantage, and that possibly some new monetary system will overcome the penalties attached to the former dollar. Such sentiment, of course, crystallizes about the commodity dollar. Furthermore, the advocates of "sound money" are drawn largely from the groups which in the public mind are identified with the evils of the period of "prosperity"—men who since 1929 have been revealed as false gods. Finally, popular confidence in President Roosevelt remains so great that there is a fairly general attitude of letting him try to devise a dollar which if not "sound" will at least be "honest."

UNREST AMONG FARMERS

But the monetary program has not been the only source of trouble for President Roosevelt and his advisers. Out of the West came the clamor of farm strikes accompanied by violence; out of the West, also, came word that the NRA was sharing unpopularity with the AAA. Only rapid work on the part of the administration liquidated this threatening situation.

Late in October farm unrest in the Middle West promised to repeat the scenes that had been enacted there in the last months of the Hoover administration. Nor were the causes any different: prices received by the farmer for his products were inadequate for him to buy goods needed for his personal use and to conduct his business. The failure of his real income to increase to a point where he could make both ends meet created distrust of the whole recovery program. The sentiment was not universal, but widespread enough to make it seem, when the Farmers' Holiday Association called a strike, as if the entire Middle West were about to burst into flame.

Post-haste to Washington came the Governors of Iowa, Wisconsin, Minnesota, North Dakota and South Dakota to confer, on Nov. 2, with President Roosevelt. Their proposals for a system of price-fixing were rejected by the President as impracticable and because they embodied "complete regimentation" of agriculture, which would be unpopular with the majority of farmers. But rejection of the Governors' proposals did not mean that the administration had turned its back on agriculture.

To explain the recovery program to the Middle West, both General Johnson and Secretary Wallace made hurried speaking tours in half a dozen States in the second week of November. Probably neither man won many converts, but the loyalty of the thousands who had been supporting the President from the start was strength-

ened and by sheer force of personality these spokesmen of the administration left with their audiences a feeling that the administrators of the NRA and the AAA knew what they were about and that they had the welfare of all sections at heart.

Probably mere talk would not have served the purpose of the President had it not been reinforced almost immediately with checks sent out as part of the corn-hog program. (See December CURRENT HISTORY, page 337.) Iowans and Nebraskans, with the expectation of loans totaling about $40,000,000 and $20,000,000 respectively, found reason enough to celebrate Thanksgiving and to turn their faces again toward the man in the White House. These measures ended the farm strikes which cold weather had already begun to make difficult to continue.

Wheat, cotton, corn and hogs have now been taken care of by the AAA through devices which amount to a direct subsidy to agriculture. No one is more ready to admit the economic unsoundness of these steps than the administration. The excuse, however, is the present emergency, the need of tiding the farmers over a period of painfully adjusting themselves—to what is as yet unknown. Secretary Wallace in recent speeches has made clear his belief that the United States must decide whether it has "the courage and the tenacity that will be required to take and to stick to, either the international path, the national path, or to a planned path between the two, for long and perhaps trying years of readjustment." Only when the decision has been made can a sound, permanent policy be devised for agriculture. But there must be some decision, since subsidies cannot be continued forever.

INDUSTRY AND LABOR

The NRA, disregarded by some industries and bitterly criticized by business leaders, has found stout defenders in the person of the President and his administrators. At Savannah on Nov. 18, Mr. Roosevelt called his critics "Tories" and "doubting Thomases" and assured his Southern audience that "we are on the way." Donald R. Richberg, general counsel for the NRA, had told New Yorkers a fortnight earlier that "the Tories and the ultra-radicals within our borders will do their best to make our efforts fail." Similar speeches in the four corners of the land sought to still the criticism that emanated from groups like the United States Chamber of Commerce and the National Founders Association.

Almost unnoticed the drafting and adoption of industrial codes proceeded during November. Codes for the anthracite industry, for air lines, the movies and many less important enterprises have now been signed, bringing nearer the time when all American industry and trade will be codified. Enforcement will then come to the fore to a greater extent than it has so far. Though industry is supposed to govern itself, one would be naïve to suppose that self-government assures the abolition of practices which in the past have filled business history with stories of buccaneering.

Not all industries have been under the supervision of the NRA. Those manufacturing commodities derived from farm products have been under the AAA, which has favored much more stringent regulation than that established by most of the NRA codes. Pressure against such strict control came to a head on Dec. 6, after several days of rumors about disagreement in the AAA, when at a

conference between the President, the Secretary of Agriculture and George N. Peek, administrator of the AAA, Mr. Roosevelt transferred authority over many codes from the AAA to the NRA. Mr. Peek had opposed the position taken by other officials in the Department of Agriculture, favoring a minimum of regulation instead of a control which would extend to the point of definitely restricting profits in the interest of consumer protection. But the President's action did not prevent Mr. Peek's withdrawal from the AAA because of his opposition to the "radical" policy of the Agricultural Department. Presumably this flare-up was only the forerunner of many which will eventually decide whether the course of the administration is to be to the left or to the right.

Labor's position under the NRA appeared more promising after General Johnson, on Dec. 4, had agreed that organized labor should be represented on code authorities. The general's action closed a dispute which had continued for about two months, during which organized labor, supported by Secretary Perkins, had insisted upon a voice in the direction of the codes.

The position of organized labor has been improved also by elections in various plants which have tended to favor independent as against company unions. Perhaps the most notable was the vote of workers in the Colorado Fuel & Iron Company to affiliate with the United Mine Workers; thus came to an end one of the most famous company unions in America. Elections in other concerns indicated that, where workers were not subjected to coercion, independent unions were preferred to employer organizations. The battle, of course, is far from over, for employers have shown no tendency to recognize what in all justice might be considered the rights of labor. For proof one has only to cite the stand against collective bargaining taken by the National Association of Manufacturers.

In the larger sense, labor could find only slight encouragement in American conditions. According to the American Federation of Labor, 10,076,000 were unemployed in October, an increase of about 11,000 over September. Buying power of workers, however, rose 2.2 per cent during the month. These figures at least are better than for October, 1932, when 11,586,000 were estimated as out of work, and certainly reflect improved conditions since March, when 13,689,000 were unemployed.

RELIEF AND PUBLIC WORKS

Even with greater employment, the relief burden, after four years of economic disaster, has become so heavy that the Federal Government alone has the strength to shoulder it. That fact underlay President Roosevelt's announcement on Nov. 8 that funds drawn from the Public Works Administration would be used to give employment to 4,000,000 men on civil works projects during the Winter. While States, counties and cities were expected to contribute toward the cost of so vast a program, a large share was to be borne by the Emergency Relief Administration. The new plan contemplated taking off the relief rolls approximately 2,000,000 men and putting them to work on road, park and playground construction, drainage projects and so on; an additional 2,000,000 would be recruited from those unemployed who have not received direct aid; average wages of $50 a month would be paid, it was announced, and the working week would be limited to thirty hours.

Harry L. Hopkins, administrator of

this newly created Civil Works Administration, explained that one purpose of the plan was to permit citizens to escape from living "under the auspices of relief organizations." But the official White House statement indicated that some means had to be found for speeding up the public works program, which for months had been proceeding too cautiously for an emergency measure. The $400,000,000 obtained from the PWA and $200,000,000 from the Federal Emergency Relief Adminstration would provide employment for hosts of men, and, not least, "use greater quantities of construction materials" than had been needed under the former system of jobless relief.

That the Civil Works program was an attempt to cloak the failure of the PWA was asserted by Alfred E. Smith in the *New Outlook* on Dec. 1. The CWA, he said, "was created to hide the failure of another existing Federal agency. It was set up because the PWA, or the Public Works Administration, has broken down." Continuing, he wrote: "I cannot for the life of me see * * * how this hastily conceived Civil Works program can lead ultimately to anything but confusion."

Mr. Smith's attack, emphasizing further his disagreement with President Roosevelt, his former ally and friend, brought immediate replies from Secretary Ickes and Mr. Hopkins. The latter pointed out that the CWA in the first week of its operation had given employment to 1,183,267 persons and that 4,000,000 would be at work by Dec. 15. Mr. Ickes, the administrator of the PWA, denied Mr. Smith's strictures and struck home with the comment that "it is impossible to satisfy any man who is nourishing a grudge as the result of disappointed ambitions."

But the real significance of the CWA is that, even as earlier measures indicated, the Federal Government has assumed responsibility for the care of the unemployed. Made-work, distribution of coal and foodstuffs, home relief now spring from national rather than local agencies. To be sure, private charity and local aid have not disappeared, but their relative importance has declined, a change that can be attributed partly to the philosophy of the Roosevelt administration, but still more to the fact that only the Federal Government is capable of coping with the magnitude of the unemployment problem.

Though the Public Works Administration may have proved disappointing for the purposes of an emergency, its allotments have been of great importance and cannot help but give some stimulus, however small, to industry. Besides public projects like sewers, water systems, bridges and so on, grants have been made for municipally owned power plants and public housing construction. When the two latter are considered with the work of the Tennessee Valley Authority, one understands why the administration is accused of fostering public ownership.

BUSINESS IMPROVEMENT

Business has shown improvement, spotty, to be sure, but yet above that of 1932. *The New York Times* index of business activity for the week ended Oct. 28, 1933, was 75.6; the next week it fell to 72.5 and then rose to 74.8 for the week ended Nov. 25. The index stood at 68.3 for the corresponding week in 1932. Bank clearings and outstanding bank credit have shown slight increases; dividends have risen sharply; steel production, after falling to about 26 per cent of capacity, had, by early December, turned upward again, reaching about 30 per cent. Ex-

ports in October totaled $194,000,000—the highest figure for any month since October, 1931—an improvement which undoubtedly can be attributed in part to the low value of the dollar in foreign exchange. Colder weather and the approach of the holiday season gave a fillip to retail trade, while the legalizing of alcoholic beverages promised to give many lines of business activity a new lease on life.

THE RETURN OF LIQUOR

The experiment in nation-wide prohibition ended on Dec. 5 when Utah fell into line as the thirty-sixth State to ratify the repeal amendment to the Constitution. The result, long forecast and assured since the elections on Nov. 7, opened a new chapter in the history of the liquor problem. Temporarily at least, the Federal Government assumed control of the liquor traffic, following the signing on Nov. 27 of a code for distillers. A Federal Alcohol Control Administration, under the jurisdiction of the AAA, is to have general supervision of all branches of the liquor industry, working through codes, and will seek to protect the dry States from violation of their laws. Through the code provisions, or the decisions of the FACA, the government will be in a position to control production, distribution and prices. Importation of liquor, for the first sixty-day period after repeal, was placed on a quota basis by which imports from any foreign country were not to be less than the average amount imported from that country in a like period from July 1, 1910, to June 30, 1914.

Undoubtedly rigid Federal supervision had not been foreseen either by the liquor interests or by many of the groups that agitated against the Eighteenth Amendment. Since the attack on prohibition had been waged largely on the basis of States' rights, it had been presumed that regulation, except in so far as Federal protection of the dry States might be necessary, would be directed from the forty-eight State capitals rather than from Washington. But much has happened since 1932. Today it seems only logical that, as other industries are operating under codes, the liquor business should also fall into line. Furthermore, President Roosevelt, having linked repeal with his recovery program, might well be expected to retain control of both at the national capital.

Meanwhile, the States considered systems of control. When repeal became effective, twenty-four States forbade the sale of liquor; several were without any control, and the rest were operating under the greatest variety of systems. Some permitted drinking with meals only, except that hard liquor in packages could be purchased for off-premises consumption. Others prohibited bars but allowed drinking at tables. Perhaps the most interesting experiment was that of Pennsylvania, where after Jan. 1 liquor was to be sold only by State dispensaries.

With repeal ended certain recovery taxes—the extra tax on gasoline, the 5 per cent levy on dividends, the capital-stock levy and the excess-profits tax on corporations. The Ways and Means Committee of the House has been at work drafting new tax legislation which will take cognizance of the new situation created by repeal, although liquor taxes, of course, will be only part of the general tax bill that is to be introduced in Congress. By agreement of all interested parties, liquor taxes are to be kept low enough to discourage bootlegging.

SIDELIGHTS OF THE MONTH

November, for no particular reason, produced new scenes in what a cele-

brated commentator has called the American comedy. At Chicago occurred a gruesome murder—on an operating table in a physician's office—so mysterious that it seemed likely that only a Philo Vance could solve it. The thrill of horror had scarcely passed through the country when at San José, Calif., two confessed kidnappers and murderers were lynched while men, women and children watched. The lynching itself might have been passed over had it not been approved by Governor Rolph of California as a "good job," a stateent which stirred up protests from sane and thinking citizens the nation over, and ultimately brought a thinly veiled but emphatic rebuke from the President of the United States. On Nov. 28, two days after the affair at San José, a Negro was lynched in Missouri for a confessed attack on a white girl. That same day Governor Ritchie of Maryland sent State troops into the town of Salisbury on the Eastern Shore to seize men alleged to have been connected with the lynching of a Negro at Princess Anne on Oct. 18. Mobs collected rapidly, menacing the troopers, and it was not without danger that they withdrew with their prisoners to Baltimore.

Meanwhile at Decatur, Ala., the Scottsboro case was again before the courts. Heywood Patterson, one of the seven Negroes charged with criminal assault upon two white girls on a Southern Railway freight train in March, 1931, appeared for the third time before the bar of justice. On Dec. 1, also for the third time, he was found guilty after a trial that had been marked by decisions from the bench and a charge to the jury which did not coincide with the popular conception of impartial justice. An appeal to the Supreme Court of the United States appeared certain.

In New York City during the latter part of November the trial of a noted beer king brought forth all the bizarre details of life in the underworld. Stories of murder, of fights between rival bootleg factions, of luxurious living on a standard seldom realized outside cheap novels, of stupendous profits from illicit liquor traffic made the trial of Waxey Gordon unusually picturesque and combined to assure his conviction on charges of income tax evasion.

Another picturesque episode of the month occurred at New Orleans, where a subcommittee of the United States Senate was inquiring into the election of Senator John H. Overton, a supporter of Senator Huey P. Long, "Kingfish" of Louisiana. Hearings were accompanied by what were almost riots between the Long and the anti-Long factions; order could not be maintained during the booing, hissing and face-making that continued through the sessions held by the committee, and at one meeting the police had to be called in. Meanwhile the Long machine, which rules the State ruthlessly, was trying to railroad through a candidate for Congress in a special election on Dec. 5. There had been no primary; there was no opposing candidate; so in protest the anti-Long groups seized and burned ballots printed for the election. Nevertheless, the Long candidate was victorious in a poll of about 4,800 voters out of a total of 45,141 registered.

Such episodes, exceptional though they may be, are as necessary to any survey of America as a discussion of monetary policy and the NRA, for the United States in all its vastness and variety can be understood only when the actual lives of its people are considered in conjunction with the broader and more impersonal forces that make history.

Cuba Lives Through Another Revolt

By CHARLES W. HACKETT
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THE Grau San Martín régime in Cuba succeeded in putting down the second revolt against its authority within the period of a month on Nov. 8 and 9. This new challenge, like that of the army officers who converted the National Hotel into a fortress early in October, came from the supporters of former Provisional President Carlos Manuel de Cespedes.

Rebellious aviation sergeants, reinforced by members of the ABC secret society, occupied the hangars at Camp Columbia near Havana early on the morning of Nov. 8. Though driven from the aviation field by the loyal troops of Colonel Fulgencio Batista, Chief of Staff, they were soon joined by the garrisons of Forts Dragones, Atares and San Ambrosio, by all the police stations in Havana and by many civilians. During the two-day battle that ensued the Cuban gunboats, Cuba and Patria, and most of the army remained loyal to the government. Sections of Havana were frequently raked by the artillery and machine guns of both factions.

Police headquarters were captured by government troops on the afternoon of Nov. 8, but the outstanding military event centred at Fort Atares. There, under the command of the celebrated anti-Machado guerrilla leader, Colonel Juan Blas Hernández, troops from the other rebel fortresses concentrated after the reverses of Nov. 8. Loyal military and naval forces began a bombardment of the fortress at 10 o'clock on Nov. 9 and six hours later, after Colonel Hernández had been killed, the defenders surrendered. Havana again became virtually a battlefield on Nov. 11 when scattered rebel forces began a sniping campaign in the streets and from roofs. The revolt was finally crushed but at the cost of three hundred lives, or probably a greater death toll than that of any other uprising since Cuban independence.

With comparative peace restored in Havana, the government proceeded to consider what to do with the captured rebels. Twenty-seven prisoners under 18 years of age were released on Nov. 13. Sergeant Basilio González and Corporal Homobono Rodríquez, alleged leaders of the revolt, were sentenced to face firing squads and one sergeant, three corporals and nineteen privates were dishonorably discharged from the army and sentenced to imprisonment for four years.

The victory of the Grau San Martín government clearly revealed its military strength at the capital. Both its political position in Havana and its international prestige were strengthened. Nevertheless, the government's already slight control over the interior of the island was further weakened by the Havana rebellion. In connection with it, uprisings occurred at various places throughout Cuba, thereby intensifying already chaotic conditions. Oriente Province was reported on Nov. 11 to be seething with unrest and military activity, and Santiago was combating a strong rebel movement. Con-

siderable numbers of rebels were reported under arms in Santa Clara, Matanzas and Camaguey Provinces. By mid-November, according to one observer, government in the interior of Cuba had degenerated into a mass of conflicting autonomies, with Chief of Staff Fulgencio Batista apparently exercising no more effective control over the military detachments outside the capital than did President Grau over the civil administration.

Shortly after the outbreak of the rebellion on Nov. 8 a state of siege throughout Cuba was proclaimed by President Grau. Minister of War Guiteras announced on Nov. 11 that this precaution would soon be withdrawn in Havana, but would be continued elsewhere in the republic. A week later, as rumors of a new revolutionary movement continued to spread in Havana and occasional bomb-throwers and snipers continued their activity, special steps were taken to safeguard the Presidential palace. War Minister Guiteras also declared that martial law would be strictly enforced, and that plans for liberating political prisoners would be abandoned.

The anticipated rebellion failed to materialize, but conditions did not improve noticeably either in Havana or in the provinces. A staff correspondent of the *New York Herald Tribune* reported on Nov. 25 that the different classes in Cuba were ranged against each other in a social revolution, that government troops were clashing with rebel bands in Oriente Province, and that thievery and pillaging were increasing in Havana.

A formula for conciliation was offered to the Grau Government and its opponents on Nov. 27 by the Uruguayan Minister to Cuba, Dr. Fernández Medina, who played the rôle of unofficial mediator. This formula provided for the liberation of political prisoners, the formation of a council of state of sixty members chosen by commercial, professional and political groups to cooperate with and advise the government; the formation of a coalition Cabinet, and the prompt election of a constituent assembly which would replace the present provisional government.

The peace formula failed to secure unanimous support and dispatches on Nov. 28 stated that bursting bombs in Havana and new strikes and disorders stood out in bold contrast to the conciliation which Dr. Medina tried to bring about. At the same time Santiago was excited over sniping, bombings and student disorders which resulted in the wounding of three persons; the city of Camaguey was recovering from the alarm attending the bursting, without casualties, of seven bombs, and in Oriente Province the strike already in progress at the sugar mills spread to the United Fruit Company's plant near Banes. Nevertheless, Dr. Medina claimed that all factions had accepted his peace plan except the ABC Society and the supporters of former President Mario G. Menocal.

The Roosevelt administration continued during November to keep a close watch on the Cuban situation. It reiterated its disinterestedness in the factional struggle in Cuba, maintained its policy of non-intervention and withheld recognition. President Roosevelt had a lengthy conference with Ambassador Sumner Welles at the latter's request on Nov. 19 at Warm Springs, Ga. Rumors after the conference that Mr. Welles would relinquish his post were temporarily silenced by the President's statement that, at his request, the Ambassador was to proceed to Washington for several days of conferences with Department of State officials before returning to Havana.

Four days later President Roosevelt announced that Ambassador Welles would return to Cuba within a few days, but that upon the termination of his mission, which was expected in the near future, he would resume his former duties as Assistant Secretary of State. He would then be replaced as Ambassador by Jefferson Caffery, the present Assistant Secretary of State.

As an introduction to the above announcement the President, in an unexpected and dramatic statement, summarized the attitude of his administration toward recent developments in Cuba. He promised to "welcome any provisional government * * * in which the Cuban people demonstrate their confidence," and expressed the earnest hope that the Cuban people themselves would soon "reach a peaceful agreement which may result in general support of a government."

MEXICAN RULERS' LENIENCY

The Mexican Government, apparently confident of its stability, has recently pursued a remarkably lenient policy toward both military and political malcontents. Nine young officers were indicted late in October for complicity in a plot to seize the control of the army from the higher-ranking officers. The successful sergeants' revolution in Cuba was to serve as their model. After an investigation by President Rodríguez, former President Calles and twelve military commanders to ascertain the extent of the plot, the nine officers were released. In explanation of this generous action, the Ministry of War announced that the young men did not know what they were doing and that "leniency is the only way to bring them to their senses." It was rumored, however, that most of them would be dismissed from the service.

The government's action in freeing two prominent opponents of the dominant National Revolutionary party, Aurelio J. Manrique and Antonio I. Villareal, was equally generous. In addressing a crowd of 7,000 militant supporters in Mexico City on Nov. 19, these men attacked individual leaders of the National Revolutionary party and declared that "the crimes of Díaz and Huerta have been surpassed by the revolutionary government." After the meeting had been broken up by police using tear-gas bombs and sabres the speakers were arrested, but were released after a short detention.

A bill relating to army discipline was sent to the Chamber of Deputies by President Rodríguez on Nov. 16. It provides that military officers who participated in revolutionary activities after 1926 will lose their rank in the army and will never be allowed to return to it except that in case of war between Mexico and another country they might serve on receiving special permission from the President.

THE MEXICAN CHURCH ISSUE

That the Mexican Government is still suspicious of Catholic intrigues against the government and that it has in no wise relaxed its anti-clerical measures has again been made apparent. At the University of Guadalajara, where students began militant agitation for the right to govern themselves in October, there was renewed rioting in mid-November. Eighteen students and one policeman were injured. Minister of War Calles was quick to place responsibility for the riot on the clergy. He declared that he had found "the hidden and false hand of the clergy with fanatical elements" behind the student move-

ment. He also gave indirect warning to the clergy in the following statement to Governor Allende of the State of Jalisco: "If this state of affairs continues I am afraid the revolutionary elements * * * freed from clerical influence by Mexico's revolution, will take action to castigate and reduce to order those instigators against whom the public authorities may be unable to take sufficiently energetic action. They are eternal enemies of Mexico's progress." Archbishop Pascual Díaz denied that the Catholic clergy were connected with the student movement to obtain autonomy in their schools.

A law permitting only one priest to every 30,000 inhabitants was promulgated in the State of Durango in mid-November. In protest to a similar law in the State of Querétaro religious services were suspended in all churches in the city of Querétaro on Nov. 19.

Ratifications of the convention between the United States and Mexico for the rectification of the Rio Grande in the vicinity of El Paso were formally exchanged on Nov. 10. Two days later a plan for the construction of flood control works at Nogales, Ariz., and Nogales, Mexico, was signed by the American and Mexican commissioners on the Mexican-American section of the International Boundary Commission. For the work to be performed at Nogales, Ariz., the Public Works Administration at Washington recently allotted the sum of $433,000.

The Mexican Congress has been asked by the Department of Communications for an appropriation of 42,000,000 pesos for road construction. If the money is granted, a large part of it will be used to construct the Mexican section of the Los Angeles-Buenos Aires highway.

According to custom, Mexico celebrated the twenty-third anniversary of the outbreak of the Madero revolution on Nov. 19, when 30,000 athletes, representing all branches of Mexican sport, paraded before the President.

TRADE IN THE CANAL ZONE

The promises made by President Roosevelt to President Arias of Panamá in their recent conversations in Washington regarding private business enterprises in the Canal Zone are already being fulfilled. Early in November Canal Zone clubhouses were closed to all patrons except those in the employ of the United States Government or the Pacific Railroad Company. At the same time the restrictions of Panama Canal facilities and sales agreed upon by the two Presidents were made public by Governor Julian L. Schley of the Canal Zone. One of these affected "tourist goods," which commissaries are now forbidden to dispose of for resale on ships passing through the canal. This prohibition particularly affects items such as perfumes, which can be imported into the Canal Zone free of duty. By another provision lunch rooms and restaurants operated under private contract are to be discontinued as soon as practicable. As a result of the restrictions much of the Canal Zone's private business is expected to go to Panamá.

President Arias returned to Panamá from his trip to the United States by airplane. He stopped forty hours in Mexico City and for shorter visits at San Salvador and Managua. Everywhere he was received with the highest honors, and when he reached Panamá, on Oct. 28, he was given the greatest ovation in the history of the country.

The Conference at Montevideo

By HENRY GRATTAN DOYLE
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UNFORTUNATELY, the measure of success for the representatives of the United States at a Pan-American Conference has come to be their ability to "sit on the lid," to prevent discussion of matters which it is not American policy to discuss, or which, if discussed, could only bring out justified criticism of our actions and attitudes. In recent months there were many suggestions that in view of our domestic economic condition, the breakdown of the London Economic Conference, and the delicate situation in Cuba, it would be just as well if the seventh Pan-American Conference were postponed. Against these suggestions President Roosevelt stood firm. There was no intimation from the United States that the conference should be put off—an intimation that would undoubtedly have been heeded.

Accordingly the conference met at Montevideo on Dec. 3 and an American delegation was present. There is apparently no united Latin-American bloc opposed openly or secretly to the United States, as in 1928, and our friends come not from States over which we have exercised a virtual protectorate but from some ot the largest and strongest of our Latin-American neighbors.

If what has been said above proves to be true, not only at the moment but when the complete story of the conference shall have been written, a due measure of credit must be assigned to a number of factors. The first is the attitude of our President, as shown by his "good neighbor" reference in his inaugural address and his speech on Pan-American Day, by his unwillingness to intervene in Cuba and by his frankness in dealing with our sister American States, manifested notably by taking them into his confidence when the Cuban situation first became critical. Secondly, the character of our delegation, for which the President also deserves credit, must be remembered. Moreover, the place of meeting, far removed from our "sphere of interest" in the Caribbean, has been a definite asset.

Secretary Hull, as chief of our delegation, is not, and does not seek to be, the imposing figure that nature and circumstances made of Charles Evans Hughes, who headed our delegation at Havana in 1928. Yet Mr. Hull proved at London, and is apparently proving again at Montevideo, that he can win the respect and liking of his diplomatic opponents or co-workers by his modesty and simplicity, his sincere democracy, his obvious good intentions. The other members of the delegation are worthy of their leader. J. Reuben Clark, well known in Latin America as the author of a much-discussed memorandum on the Monroe Doctrine written while serving as Assistant Secretary of State, has a profound knowledge of international law and an unusual appreciation of Latin-American culture. Spruille Braden has an intimate knowledge of business conditions in South America. J. Butler Wright, our Minister to Uruguay, and

Alexander W. Weddell, Ambassador to Argentina, are both "career men" of wide service. Miss Sophonisba Preston Breckenridge, the surprise appointment to the delegation, is the first woman to serve as delegate from the United States to a Pan-American Conference. A professor at the University of Chicago, she is familiar with Latin-American problems through service as a delegate to the Child Welfare Conference held at Lima in 1930.

The experts accompanying the delegation include Wallace McClure of the State Department and James C. Corliss of the Department of Commerce, the latter an authority on Latin-American fiscal and monetary questions. The majority of members of the delegation speak Spanish, and at least two of them can make an acceptable speech in Spanish.

With the Uruguayan Foreign Minister, Dr. Alberto Mane, as presiding officer and Señor Enrique Buero, also of Uruguay, as Secretary General, the conference was opened with an address by President Gabriel Terra of Uruguay. "The American ideal of peace must not be buried in the swamps of the Chaco," he declared. "We cannot leave as mere declarations those noble pacts which have united us in the past and which have been confirmed in the anti-war pact recently signed in Rio de Janeiro, on the initiative of the Argentine Republic, by Argentina, Brazil, Chile, Paraguay, Mexico and Uruguay." Speaking of economic questions, President Terra recalled that he had represented Uruguay at the Washington conference of 1915 and the Buenos Aires conference of 1916, at both of which Uruguay presented a proposal, which was unanimously adopted, declaring for reciprocal customs concessions among the American republics. "Although accepted by these two conferences," he said, "this proposal, instead of being complied with, has been fought and counteracted by antagonistic policies. The Hawley-Smoot tariff has almost closed United States markets to our industrial and agricultural products, and for three years has made it impossible for us to pay our public and private debts."

Dr. Terra's address brought upon the tapis two questions which had been foremost in discussions of the conference since it was announced—the Chaco war between Bolivia and Paraguay and the fundamental economic problems of the American States. While Secretary Hull was understood to prefer discussion of the Chaco problem outside the conference chamber, there has been no indication that the United States would oppose its consideration.

As for economic questions, President Roosevelt had issued a statement on the eve of the departure of the American delegation (Nov.9) in which he declared that "unsettled conditions, such as European commercial quota restrictions, have made it seem desirable for the United States to forego immediate discussions of such matters as currency stabilization, uniform import prohibitions, permanent customs duties and the like." As substitutes, the President suggested, among other things, problems of communications, including the proposed Pan-American highway. This statement was widely discussed in the American press and from varying points of view. Some commentators saw in it an emasculation of the conference; others spoke of "Pan American, Limited," or ironically commended the President for killing the conference before it got under way instead of waiting, as in the case of the London Conference, to give the *coup de grâce* in the midst of its deliberations.

On the other hand, some editors

agreed that "while international monetary stabilization and tariff reduction are essential to world recovery," "it would be absurd to attempt such stabilization until the United States and Great Britain, the two chief nations, have reached the points in their internal economy where joint action is possible." "Therefore," according to this representative comment supporting the President, "it is both honest and expedient to postpone the monetary and tariff questions at Montevideo."

These comments almost universally leave out of consideration several factors. Among these are the President's promise, in the same statement, to revive these questions "when the temporary conditions necessitating emergency policies have passed," and his use of such qualified phrases as "immediate discussions," "permanent customs duties," and the like, which do not, in the writer's opinion, definitely close the door to constructive action looking toward (1) temporary relief from tariff burdens, and (2) plans for subsequent consideration of all the factors now disturbing inter-American economic relations. As a matter of fact, Argentina has proposed an Inter-American Economic Conference at a later date. The significance of the presence in Montevideo of Mr. McClure and Mr. Corliss should not be overlooked, nor the President's previously demonstrated willingness to discuss commercial questions with individual American nations. It is not likely that he has abandoned his previous policy, nor is it likely that he expects the conference to be a fiasco; otherwise he would not have opposed its postponement.

That this possibility had been envisaged by delegates to the conference was brought out by certain Uruguayan proposals. On Nov. 17 the Secretary General of the conference, Señor Enrique Buero of Uruguay, in an interview concerning President Roosevelt's statement, said: "We realize that the United States is in the midst of a tremendous social and economic experiment. We well understand that the United States delegates cannot come to Montevideo and help us reach international decisions on these problems while they do not know what their own internal conditions are going to be." In spite of this acceptance of President Roosevelt's viewpoint, the Uruguayan Under-Secretary, Señor Mateo Márquez Castro, proposed, on Dec. 7, the adoption of a five-point program involving (1) a tariff truce until June 30, 1934; (2) a return of tariffs to the level of January, 1928 (i. e., before the Hawley-Smoot tariff went into effect); (3) abolition of all sanitary regulations acting as trade barriers, except those absolutely essential to public health; (4) a declaration that import and export quotas are contrary to the principle of equality of economic treatment among nations and inconsistent with the spirit of the "most-favored-nation" clause; and (5) an invitation to all other nations to accept the same policy.'

The Haitian delegation, while en route to the conference, made a request for withdrawal of the American financial administration from their country. Referred by Secretary Hull to President Roosevelt, the latter is understood to have replied that the United States has inescapable treaty obligations which make it impossible to grant the request. The point was again raised in a statement by Antoine Pierre Paul, a member of the Haitian delegation, after reaching Montevideo, in which he declared his intention to ask the conference to pass a resolution calling upon the United States to

declare its intention to "terminate all extraterritorial occupation, both financial and military." (United States Marines are scheduled to be withdrawn from Haiti by October, 1934, but financial control of Haitian customs will be continued, under loan agreements, until 1945.)

Further difficulty of a similar nature arose from the announced intention of the Cuban delegation to seek the abolition of the Platt Amendment. This was particularly serious from the point of view of the success of the conference, inasmuch as by custom Cuba, as the last previous host to the conference, was delegated to respond to the welcome of the Uruguayan Foreign Minister. Reports that the remarks of Angel Giraudy, Cuban delegate, would be devoted to an attack on the United States were followed by action, not by the United States, but by a group of Latin-American delegations, which led to the Cubans being informed that such an attack was not permissible, as a matter of good taste if on no other grounds, and that unless the speech as submitted to the secretariat was revised, some other nation would be selected to respond to the greetings of Uruguay. On Dec. 4, the address was delivered without the offensive material.

The next difficulty arose from the Mexican proposals, advanced by Dr. José M. Puig Casauranc, the Mexican Foreign Minister, who, on Dec. 4, asked the steering committee of the conference to enlarge the agenda by including fifteen items having to do with political asylum, extradition, child welfare and various cultural matters, but including also proposals for a moratorium on debts for six to ten years, and for a Pan-American bi-metallic monetary system. His proposals were referred to a subcommittee, which on Dec. 7 recommended that the economic proposals be referred for study to the Inter-American High Commission at Washington, a recommendation which was adopted. An inter-American banking system was proposed in a resolution sponsored by the Peruvian delegation and introduced on Dec. 5 by Dr. Felipe Barreda Laos of Peru. It proposed an international bank located at Buenos Aires, with a currency reserve backed by gold, silver and commercial paper combined. The Peruvian proposal was referred to a subcommittee, as was the Uruguayan proposal.

A new note in Pan-American gatherings was the suggestion that Spain and Portugal be allowed the privilege of assigning observers to the conference, followed by a similar request on the part of the League of Nations. The steering committee on Dec. 4 voted to admit observers from Spain and Portugal, the former on the nomination of Argentina and the latter on that of Brazil. When this was followed by the League suggestion, Secretary Hull moved on Dec. 6 to preserve the regional and Pan-American aspect of the conference. He opposed the League request and moved the appointment of a permanent committee on policy to which the steering committee's decision on Spain and Portugal should also be referred for reconsideration. The basis for the inclusion of Spain and Portugal is the fact that they are the mother-countries of all the American States except the United States, Canada and Haiti, and that, linguistically and culturally, their ties with those States are extremely close.

The proposal for inclusion of a League observer arose out of a sixty-six-page memorandum of the League's activities submitted to the Secretary General at his request. Consideration of League participation was doubtless also a natural consequence of the

League's efforts to end the Chaco warfare and its activities in settling the Leticia dispute.

Of equal importance with economic problems in President Terra's keynote address, and doubtless, also, in the minds of many of the delegates, is the restoration of peace in the Chaco and the strengthening of the machinery for the prevention of similar tragedies in the future. Discussion of the Chaco imbroglio seemed likely to take up a good deal of the time of the conference at the outset. At a meeting of the subcommittee on the organization of peace on Dec. 7 to consider ways and means to facilitate settlement of the Chaco dispute, both Delegate David Alvéstegui of Bolivia and Foreign Minister Justo Pasto Benítez Alvarez of Paraguay supported the efforts now under way to reach a peaceful solution in cooperation with the League of Nations Chaco Commission, which is now in South America.

The general disposition at the opening of the conference seemed to be to let the League Commission complete its peace efforts without interference. This was reported to be the attitude of Secretary Hull, as well as of the Argentine and Brazilian Foreign Ministers, Senhor Afranio de Mello Franco of Brazil pointing out that it would be inopportune to sponsor a conference conciliation effort in view of the failure of the Washington Neutral Commission and the ABCP group to effect a solution. The League memorandum, to which reference has already been made, also stressed the League's mediation efforts and indicated that settlement had been delayed by the efforts of other agencies.

It was reported on Dec. 9, however, that President Terra of Uruguay had begun personal conversations with Bolivian and Paraguayan representatives looking toward immediate peace in the Chaco, and that he had asked that the conference take no action until his plan had been tried out. Two other proposals before the conference's subcommittee on organization of peace are one from Peru proposing conciliation by the conference, and one offered by El Salvador calling for a truce during the conference.

The League Chaco Commission reached Asunción on Nov. 18, its diplomatic members remaining to study the juridical questions involved, while the military members visited the front lines. The arrival of the commission coincided with a lull in military activities, after a month of offensives and counter-offensives, with the usual claims of gains by both sides. On Dec. 8 the commission reached La Paz, where it planned to make the same study of historical and juridical data and visit to the front that it had made from the Paraguayan side.

Peace efforts of the conference, outside the specific problem of the Chaco, dealt with the Argentine anti-war pact and the general relations of the conference to the League. At the session on Dec. 8, Dr. Saavedra Lamas, author of the anti-war pact, received high praise for his efforts, which have resulted in acceptance of the pact by six Latin-American nations. (Secretary of State Stimson, in a note sent on his last day in office, March 3, 1933, declined in the name of the United States an invitation to adhere to this pact.) Unofficial discussion of relations to the League, and of general reorganization of the League as suggested by Italy, apparently inspired the unconfirmed report from Geneva that Secretary Hull had expressed himself in favor of direct cooperation between the Pan American Union and the League.

Conservative Rule in Britain

By J. Bartlet Brebner
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Great Britain's national government has been rapidly losing its appearance of a coalition and revealing itself as definitely Conservative. So long as the Cabinet was concerned with financial and economic reorganization, its non-party character could be maintained, but when unemployment, housing, India and disarmament became the issues, party lines became too obvious to be disguised.

The electorate, refusing to be fooled, has exhibited in the eight or nine by-elections during the last two months, as well as in the local government elections, an unmistakable distaste for the government's policies. Stanley Baldwin, moderate leader of the Conservatives, has remained loyal to his Liberal and Labor colleagues in the Cabinet, but actually they have themserves become moderate Conservatives. The Tory backbenchers, however, have so steadily increased in effectiveness that Sir Herbert Samuel has led his thirty-three Liberals across the floor to join the Opposition. MacDonald, Baldwin and Simon indirectly suggested the formation of a new National party early in November, but the proposal fell flat. It was felt that the underlying party alignment was now Conservative versus Labor, with the Liberals and the moderates of the opposed parties once more in an uneasy middle position. There was no question of turning out the government, which still had an overwhelming majority, but if the Conservative party could be split on some basic issue there might be a chance for a majority formed by the moderates.

International affairs have been the chief occupation of Parliament and the nation. The government devoted the first day of the session to a full-dress debate on its disarmament policy, but no clear outlines emerged because of the negotiations going on with Germany. The currency conflict with the United States was the subject of many questions, but the government refused to admit that it was doing anything more than reducing fluctuations in the gold level of the pound. The one clear note was the announcement by Walter Runciman, President of the Board of Trade, on Nov. 29, that because of dishonest Japanese trade practices and the perilous competition of Japanese goods at home and abroad the government would take immediate steps to protect British trade, if necessary by denouncing the Anglo-Japanese commercial treaty.

The new Unemployment Insurance Bill, introduced on Nov. 8, proposed to bring an additional 4,000,000 workers under the insurance scheme, to lengthen the benefit period from six months to a year and to earn an annual surplus of £5,500,000 (on the basis of 2,500,000 unemployed) to be applied to reduction of the fund's £115,000,000 debt. This was to be accomplished by an increase in the rate of weekly contributions from the

worker and a decrease in the rate of benefit. In addition, a new board was proposed to administer relief and train the able-bodied unemployed who were not entitled to insurance benefits, thereby bringing the general control of all unemployment relief at least under central direction. During October unemployment fell by 37,974 to a total of 2,298,753; the fund had accumulated a surplus of £5,250,000 to meet the expected extra burden during the Winter and to reduce its debt. In spite of seasonal influences, unemployment declined again by 18,736 during November.

The improvement in British foreign trade has continued, though at a slower rate. In October exports totaled £34,131,000 (£30,440,000 in 1932) and imports £61,771,000 (£60,828,000). Domestic trade was barely above October, 1932. There was, however, a perceptible improvement in coal mining, where after over ten years of effort compulsory integration of mining companies has at last begun. Early in December the Coal Mines Reorganization Commission started to force the federation of the West Yorkshire fields and planned similar action in other areas. Some mines were to be closed with compensation to the owners; marketing organizations were to be merged. The total area to be affected has in the past produced 44 per cent of British coal.

THE ANGLO-IRISH DUEL

November was marked by one of the most dramatic rounds in the long controversy between President de Valera of the Irish Free State and J. H. Thomas, British Secretary for the Dominions. On Nov. 14 Mr. Thomas, in reply to a question in Parliament, commented on three bills now before the Irish Senate whose passage would complete the elimination of even the formal attributes of the Crown from the Irish Constitution. Such action, in his opinion, bordered closely on rejection of membership in the Commonwealth of British Nations; speaking for the government, he declared that, if the Irish Free State renounced its responsibilities in the Commonwealth, it could not hope to enjoy the benefits of membership. He also warned the other Dominions not to interfere in the Anglo-Irish dispute.

On the same day Mr. de Valera gave the situation a neat twist from which he hoped to derive a tactical advantage by asking from a public platform if Great Britain would regard the declaration of an Irish republic as an excuse for aggressive action. Receiving no reply, he wrote on behalf of his government on Nov. 29 that Ireland's association with Great Britain had never been voluntary and that the Treaty of 1921 had been acceded to for want of anything better. He then asked for "a direct and unequivocal statement" that Great Britain would not treat "as a cause of war or other aggressive action a decision of the the Irish people to sever their connection with the Commonwealth."

Mr. Thomas and the British Government refused to be drawn on an issue which they had not selected, and pointed out that the treaty had been accepted by Irish representatives and ratified by a general election. The British reply disclosed that it was difficult to "believe that the Irish Free State Government contemplate final repudiation of their treaty obligations in the manner suggested, and consequently they [the British Government] do not feel called upon to say what attitude they would adopt in a circumstance which they regard as purely hypothetical." Thus until de Valera is ready to risk going to the country on the straight issue of a

complete break with the United Kingdom the battle remains a draw.

The disputants both evaded one major issue—the counties of Northern Ireland which are determined to remain outside the Free State. They also avoided reference to the potential use of Ireland by a foreign power as a base against Great Britain. The Irish Republican Army insists upon a united Irish republic; Mr. de Valera hopes for it; and his political opponents, the United Ireland party, have had to include it in their platform. It was generally believed that de Valera could win over the Irish to a republic but that if he tried to coerce Ulster he would fail and justify British intervention.

Considerable progress has been made in increasing the economic self-sufficiency of the Irish Free State. Ground has been broken and contracts let for the machinery for three new beet-sugar factories which, added to the one established by Cosgrave, would make the country independent of outside supplies. Other projects, such as the conversion of pasture to tillage, afforestation and the encouragement of the use of peat, were being forwarded. An internal loan of £6,000,000 at the beginning of December was taken up by the public as well as the banks. The rich and middle-class farmers are badly off; nine of them, imprisoned for not paying their taxes, were recently acquitted by the military tribunal appointed to try them for illegal conspiracy. The poor farmers, however, are no worse off than before, while the urban and industrial laboring classes are feeling some benefits from government-assisted enterprises. Trade has been very bad. For the year ending in October the total was £55,500,000 (£78,000,000 the previous year), exports being reduced by 34 per cent, imports 25 per cent and the adverse balance being £15,000,000 without taking into account the export bounties.

The United Ireland party has continued its efforts with no obvious signs of an increase in influence. General O'Duffy held a parade of his Blue Shirts in County Kerry in spite of a governmental ban. The party, in its platform issued on Nov. 11, supported voluntary reunion of Ireland within the Commonwealth, a new trade agreement with Great Britain, and a domestic program which did not differ greatly from de Valera's. The Irish Republican Army has continued to harass de Valera. They can cause or prevent general disorder and de Valera, sympathizing with their demand for a united Irish republic, has not declared them an illegal organization as he has O'Duffy's National Guard.

CANADIAN BANKING

The report of the Royal Commission to investigate Canadian banking before the decennial revision of the Bank Act was made public on Nov. 12. It proved to be a remarkable document in its history and analysis of the Canadian economic and financial conditions as well as in its recommendations. With both Canadian banker members dissenting, the majority of three urged the creation of a central bank "forthwith" and suggested its constitution. It should be non-political, have a paid-up capital of $5,000,000 from private subscription, enjoy the sole right of note-issue, serve as banker for the Dominion and possibly the Provincial governments, handle the national debt and be responsible for credit policy, control of currency and exchange, and cooperation in international monetary action. The commis-

sion recommended a survey of the problem of short and intermediate rural credit and a number of administrative changes such as abolition of the statutory maximum interest rate and the cashing of bank checks at par.

Though the report paid high tribute to Canadian banks, its recommendations, if they became law, would strip these institutions of three valuable perquisites—the right of issuing their own notes, the revenue from government accounts and the profits from dealing in exchange. The strong implication that the central bank instead of the private bankers should assume the social responsibility of finance was resented. Finally, one phrase bore out earlier predictions that the commission was an instrument to ally Canadian finance with London, and thereby provided ammunition for the old cry of "Canada First."

Opposition from the banks was voiced immediately and some of the Conservative press followed suit. The Liberals were already committed to a central bank, as were the Western Progressives, whose representative on the commission entered a minority recommendation for State instead of private capital subscription. Conservative French Canada was opposed and Nationalist French Canada scented an Imperial plot to enslave the Dominion. Nevertheless, the Prime Minister on Nov. 20 said that legislation for a central bank would be introduced at once.

Mr. Bennett, during the past two months, has done more to try to take the country into his confidence than at any time since his election. He has made a short tour of the West. He has addressed several Conservative associations with a warmth of pride in his party's record which had hitherto been lacking. He has defended Canadian prison policies, which have been under fire since 1932, pointed to the trade recovery of Canada, promised nationwide public works in the Spring and voiced both his confidence in Canadian economic revival and his determination that there shall not be a boom. Recent Liberal successes in Federal by-elections and in the Provincial elections of Nova Scotia and British Columbia have awakened him to the necessity of defending his policies.

Early in 1933 the premium on American funds in Canada was as high as 20 per cent, but in November the Canadian dollar rose moderately above parity with the American and remained there. While this was gratifying to Canadian pride, it had other implications. It made much easier the payment of the interest and capital of Canadian loans in New York, for although many of the bonds were payable in American, British or Canadian funds, the present premium of British and Canadian funds is much less than had been the premium on American. Canadian exports were handicapped somewhat while Canada was exposed to increased exports from the United States at a time when the adverse balance of trade across the border had been reduced to about $2,000,000 a month, the lowest figure in about fifty years. This situation was promptly met, as when the pound sterling was below par, by setting the valuation of the American dollar at parity for import purposes. Perhaps most seriously, it tended to keep Canadian internal prices down when every one wanted them to rise.

The trade figures for October were remarkably good. Exports, as compared with 1932, were $60,214,000 ($56,626,000)—the highest since 1930; imports were $41,070,000 ($37,095,000), the increase being almost entirely in raw materials. Import trade with Great Britain and the Empire countries continued to increase,

although exports fell a little. A contrary condition, however, existed in regard to trade with the United States. This basic change goes back to the Ottawa agreements and beyond; that it is now a governmental policy is evidenced by the recent measures adopted by the Tariff Board and the Department of National Revenue in clearing up uncertainties and removing handicaps in customs regulations on imports from the United Kingdom.

Canadian expectations of large legitimate exports of liquors to the United States were checked by the uncertainties of quota regulation at the beginning of December. Since Canadian whiskies are of the North American type, and large supplies of matured domestic spirits as well as importations from abroad were available, it was felt that Canada must ultimately profit from the inadequacy of supplies in the United States. The ban on exports set up to assist prohibition enforcement in the United States automatically came to an end on Dec. 5. There was some apprehension lest discrepancies in taxation and prices between the two countries might continue to make bootlegging profitable and police measures necessary.

NEWFOUNDLAND'S STATUS

The report of the Royal Commission on Newfoundland, which was published on Nov. 21, recommended abandonment of Dominion status, government by a British Governor on the advice of a commission of three Britons and three Newfoundlanders, and a complete realignment of the debt burden by using British credit to convert old loans to new at 3 per cent. The financial and political mismanagement which has characterized Newfoundland since the war was revealed and even the unsavory details of the merchants' spoliation of the fishermen were touched upon. The commissioners urged a complete economic overhauling and the development of natural resources for the benefit of Newfoundlanders instead of recklessly selling them to outsiders.

The scheme was not popular in London because of the financial burden on the British taxpayer, estimated on Dec. 7 at £2,500,000 and possibly more, and because the extraordinary constitutional reversion from a Dominion to a status lower than that of a Crown Colony might set a precedent. In New York there was resentment because British holders of Newfoundland securities were better treated than American. The Canadian banks and oil company which have liens on the customs duties were on the whole relieved to have Great Britain set about a financial and economic reorganization.

The Newfoundland Assembly and Council promptly agreed upon a petition to the Crown asking that the administration recommended by the Royal Commission be set up. The enabling bill will be prepared and passed in January.

AUSTRALASIAN AFFAIRS

Australia has successfully continued her financial rehabilitation. An internal loan of £10,000,000 was subscribed in forty-eight hours in mid-November and £16,650,000 of 5½ and 5 per cent obligations were converted in London on Dec. 7 to 3¾ per cent, raising the total conversions to over £88,000,000.

The New Zealand budget was presented on Nov. 9. In spite of a small surplus from the preceding year, the financial picture was confused. There have been serious exchange difficulties in London and Australia, while conversion operations have had to be

postponed because of the general unsatisfactory situation. Better gold prices for New Zealand products held out some promise, but the Prime Minister budgeted for a deficit. Domestic conditions have remained disturbed, in part because of an unsatisfactory scheme for unemployment relief and the persistent conflict between town and country. Despite financial difficulties, additions in the way of naval, military, coast defense and aviation expenditure have been proposed to strengthen New Zealand's war machinery.

SOUTH AFRICAN DROUGHT

During the Autumn of 1933 South Africa suffered from the worst drought in memory. The great rivers ran dry; sheep pastures became deserts. The Orange Free State was visited by sandstorms and the graziers saw dunes pile up where pastures had been before. Rains broke the drought early in November, but so much damage had been done that both Union and provincial governments have had to undertake the task of re-equipping the farmers with stock, draft animals and seed grain.

South Africa has drawn up a new defense scheme, under which she has abandoned her small navy, and is concentrating on aviation, coastal artillery, powerful wireless stations and a national military training system.

INDO-JAPANESE NEGOTIATIONS

Negotiations between India and Japan over their trade relations continued through November into December without a settlement. It was understood that the proposed agreement had as its central feature the acceptance of 1,500,000 bales of Indian raw cotton by Japan in return for Indian admission of 400,000,000 yards of Japanese cloth. The disagreement concerned the Indian effort to admit chiefly the cheaper Japanese grades, the idea being that imports from Great Britain would be more costly and so customs revenue could be preserved. The Japanese objected to this classification, even with a carry-over from one class to another, because it would seriously complicate their export machinery. Meanwhile, a Lancashire delegation had secured a compromise understanding with the Bombay mill owners and Anglo-Japanese conversations were going on in England. The whole situation was complicated by shifts in exchange rates and by growing British and Indian apprehensions of even more extensive Japanese competition.

THE MALTESE CRISIS

A renewed outburst at the end of October over the language question in the schools of Malta brought about the suspension of the Maltese constitution for the second time in four years and again agitated the press and policy-makers of Great Britain, Italy and the Papacy. Before self-government was re-established in 1932, the Government party (Lord Strickland's Constitutionalists) accepted from Great Britain constitutional provisions that, although Italian, which only 10 per cent of the people speak, should be one of the official languages and be used in secondary education and the university, English and Maltese, an ancient Semitic tongue, should be the language of elementary education.

A general election followed in which Lord Strickland, who, although a Roman Catholic, had been engaged in a bitter dispute with the Papacy, was defeated and a Nationalist Government under Sir Ugo Mifsud came into power. An unsuccessful Nationalist mission to London for repeal of the constitutional educational provisions

followed. Then, abandoning the religious issue temporarily, the new government followed the lead of Dr. Mizzi, Minister of Public Instruction, in embarking on an open, expensive policy of evading the language regulations in favor of vigorous Italianization not only of education, but of public life in general.

These evasions and the budget deficit to which they contributed led the Governor, Sir David Campbell, to present the Ministry with an ultimatum on Oct. 31, demanding revocation of their unconstitutional ordinances. He had previously weakened his own position by prohibiting aliens from teaching in Malta, except by his license, and by banning public meetings. When the Ministry refused to back down, it was dismissed; Parliament was dissolved, and Sir David Campbell assumed control. His actions were approved by the British Government. At once the press in Italy burst out with charges of a British attack on Italian culture.

The Governor once more stepped in by establishing control over the press and forbidding the circulation of false information. By the middle of November all the old hostilities of a hot-blooded polity had been awakened and the slow, delicate liquidation of them between 1930 and 1932 seemed to have been in vain.

French Cabinet Perplexities

By GILBERT CHINARD
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CABINET crises continue to characterize the political history of France, reflecting both the instability of the party system and the economic distress of the country. On Nov. 24, after a career of exactly a month, the Sarraut Ministry resigned, plunging the nation into despair once more because of the apparent inability of any government to survive the vagaries of the Chamber of Deputies.

The Sarraut Cabinet, formed on Oct. 26 after the fall of the Daladier Ministry, came before the Chamber on Nov. 3 when Premier Albert Sarraut read his statement of policy, emphasizing particularly the nation's financial problems. The need for a balanced budget was set forth, although no definite measures for realizing that aim were revealed. The Chamber, by a vote of 306 to 32, approved the Ministry's statement, although it was noted that, while the Radical Socialists and the Centre supported the Cabinet, half the Chamber, including Léon Blum's Socialists and the extreme Right, abstained from voting. The government thus failed to obtain a solid majority and its early fall was therefore predicted.

While the Budget Minister was devising a fiscal program a new Parliamentary situation developed as a result of a split in the Socialist party. At a meeting of its national congress held on Nov. 4 and 5, M. Renaudel and six of his fellow Deputies were expelled from the party. Continuing this purging process, the congress then expelled five other Deputies who were accused of flouting party discipline. Altogether thirty dissidents either resigned or were expelled, thus reducing

to 100 the orthodox Socialist group in the Chamber. On the other hand, a meeting of the Radical Socialists in the Chamber revealed the unwillingness of this group to coalesce with the so-called parties of the Right. M. Sarraut, warned that any vote he might receive from the Right would cost him a vote from the Left and vice versa, found his position perilous indeed.

On its foreign policy, however, the government was upheld on Nov. 14 by a vote of 545 to 11. Appealing to the German Government directly, M. Sarraut declared that France was prepared to discuss their mutual problems, provided that the conversations were held "in the full international limelight" and with respect to special friendships and that France should be informed what problems were to be discussed. M. Paul-Boncour, Minister of Foreign Affairs, the same afternoon declared that France desired to keep the disarmament conference open for Germany. He maintained that the only guarantee against rearmament by Germany would be a general limitation of armaments and the organization of effective control. When, as part of the order of the day, a vote of confidence in the government was sought, the Chamber split 394 to 144, and the fall of the Cabinet was then regarded as imminent.

The government on Nov. 15 proposed, as an emergency measure, administrative economics amounting to over 3,000,000,000 francs, a 15 per cent tax at the source on dividends, a delay for one year in all promotions and increases in civil servants' salaries, abolition of some civil posts, and a 4 per cent reduction in govern ment pensions. The government estimated that its plan would reduce the deficit to 5,363,000,000 france; additional measures would later be introduced to complete the balancing of the budget. But the Finance Committee received the project coldly, amended it considerably, and set forth objections to the proposed reductions in the salaries and pensions of civil servants.

When Georges Bonnet, the Finance Minister, presented the new budget bill he reminded the Chamber that the Treasury situation had been seriously affected by a growing belief in the country that the Chamber was unwilling or unable to make the sacrifices necessary to balance the budget. Contrary to general expectation the government succeeded at first in obtaining a majority for its bill, largely through the efforts of M. Herriot, who had returned to the Chamber in order to lend his support to M. Sarraut, and because of the willingness of M. Flandin of the Centre to cooperate with the Radical Socialists. Two amendments, one proposed by the Right and the other by the Left, were rejected, and a motion to delete the provision reducing the salaries of civil servants was defeated by 326 to 237.

For the moment it seemed that the government was now in an excellent position to push through its whole program. Soon after, however, M. Gardey, the Budget Minister, and M. Sarraut accepted an amendment proposed by the neo-Socialists that cuts should be made only in salaries above 11,000 francs. Seeing in this compromise a bid for Socialist support, the Chamber immediately reversed its previous action and the government was defeated by 321 votes to 247. The fall of the Cabinet was attributed to M. Sarraut's poor strategy rather than to the Chamber itself, which for the first time in many months had seemed ready to accept and support new economy measures.

As M. Herriot had not yet recovered

from his recent illness and was unwilling to assume the Premiership on the eve of the anniversary of his fall in 1932, he would not assume the responsibility of forming a new Cabinet, but with several other leaders of the Radical Socialists, recommended that Camille Chautemps, Minister of the Interior, be intrusted with this mission. On Nov. 27, M. Chautemps succeeded in organizing a Cabinet which did not differ essentially from its two predecessors. Though called a "Cabinet of Public Safety," it could scarcely be considered a concentration Ministry since, the Socialists and the Republicans of the Right having refused to join, it was composed almost entirely of Radical Socialists. M. Chautemps, who is 48 years old, has served in four Cabinets and was Premier for twenty-four hours in February, 1930. A good public speaker and a lawyer by profession, he has been long in politics, serving in Parliament as a Deputy from Tours.

M. Chautemps apparently decided to adhere to the financial program of his predecessors, and to make a gallant effort to economize or else raise the 6,000,000,000 francs necessary to balance the budget. He was expected to ask for authority to effect the most essential cuts by decrees—a device to save the face of the Chamber—and to win the support of the farmers by altering the wheat legislation passed last July which has aroused much protest in the agricultural districts.

M. Chautemps on Dec. 2, won a vote of confidence by 569 to 11 after urging immediate consideration of economy measures and announcing that, while problems pertaining to disarmament and Franco-German relations might be discussed through regular diplomatic channels, all decisions must be made in unison with other powers.

On Dec. 11 M. Chautemps succeeded in getting the budget through the Chamber. Two of the most important votes were for reimposing certain taxes and for a new tax on gasoline. The proposal to cut civil servants' salaries was carried by 345 to 150, with the Socialists abstaining.

The chief problem at present is more political than financial. Gold withdrawals from the Bank of France decreased the gold reserve to 77,822,000,000 francs on Nov. 30, as against 80,018,000,000 francs on Nov. 16, and 83,341,000,000 francs on Dec. 1, 1932. This steady exodus of gold has not been regarded as endangering the franc, since the gold cover is about 79.95 per cent and the legal minimum is 36 per cent. More than ever the French people seem opposed to any devaluation of the franc; the hardships resulting from the crisis of 1926 are still too fresh in their memories to make them favor anything in the nature of inflation. After watching with anxiety the gold purchases made by the American Government and expressing fear for the stability of the franc, financial circles apparently came to believe that the gold policy of America could not be construed as directed against the franc; no immediate danger was anticipated because of American financial policy.

The French Treasury, which was reported to be seeking a loan of £40,000,000 in Great Britain to meet current expenses, decided not to borrow abroad but to issue an internal loan; this was taken up at once by the banks.

Foreign trade improved markedly during October, the unfavorable balance being only 567,000,000 francs, the lowest for two years. Exports set a record high for 1933. The wholesale price index in Paris was 304, compared with 386 in September, and 523 in

October, 1932. Unemployment showed an increase of 4,691 on Nov. 4 over the figures of the previous week, but the 237,571 unemployed must be compared with 252,764 in 1932 and 331,816 in March, 1933. Unrest, however, became apparent in Northern France, where late in November about 30,000 miners paraded the streets of different cities in orderly demonstrations. (For further details of French conditions, see the article, "The Economic Crisis in France," on page 421.)

BELGIAN BUDGET PROPOSALS

The draft of the regular Belgian budget for 1934 has been distributed to members of the Chamber of Deputies. Receipts were estimated at 10,553,000,000 francs; expenses at 10,384,000,000, compared with 10,384,000,000 francs in 1933. All exceptional taxes established in 1933 will have to be maintained to reach this result and no provision has been made for the service on the war and post-armistice debts to the United States. The draft of the extraordinary budget provided for 1,100,000,000 francs and included a credit of 759,000,000 francs for national defense, notably for the construction of defensive works along the eastern frontier. At least a portion of this sum will have to be raised through a government loan. At the same time provision was made for 2,200 frontier guards, while 41,700,000 francs was asked for aviation.

German Churchmen Defy the Nazis

By SIDNEY B. FAY
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RARELY in history has force in the long run been able to triumph over the spirit. Such is the teaching of the blood of the Christian martyrs throughout the ages. It is also the lesson of Bismarck's struggle with the Roman Catholic Church in the famous *Kulturkampf* of half a century ago. Having unified Germany by force, he believed that by force he could compel the submission of the Catholic Opposition. But even he, after a dozen years of bitter conflict, was forced to give in and seek a compromise. As it may be doubted whether Chancellor Hitler is a man of greater political wisdom than the Iron Chancellor, great interest attaches to the opposition of moderate German Protestants to the Nazi efforts to dictate the creed and observances of the unified Evangelical Church.

The beginnings of this Protestant *Kulturkampf* go back to the Spring of 1933, when the twenty-eight Lutheran and Calvinist State churches were united into a single German Evangelical Church. The leader of the moderate Protestants, who wanted to keep politics out of the church, was the much-beloved and respected Dr. von Bodelschwingh. But in the elections of July 23 for the National Synod the Nazis exercised political pressure, with the result that the German Christians, representing radical Nazi partisans, secured about three-quarters of the delegates to the National Synod. When this body met at Wittenberg late in September it elected Dr. Lud-

wig Mueller as Reich Bishop in disregard of the wishes of Dr. von Bodelschwingh's followers.

Dr. Mueller, a chaplain in the marine corps during the war, a champion of the unrestricted submarine campaign and a determined enemy of Socialists and Jews, became a military priest in East Prussia after the war. He was also widely known because of his work in establishing a Hall of Fame for the German Navy at Wilhelmshafen. On his election as Reich Bishop, a selection confirmed by Chancellor Hitler, he appointed, in accordance with the new Protestant Church constitution, the three members of the Spiritual Ministry which aids him in governing the church. All three members were Nazi German Christians. One of his chief aides was the Rev. Joachim Hossenfelder, Bishop of Brandenburg and one of the most militant radicals and opponents of Dr. von Bodelschwingh. With this set-up the Nazi German Christians seemed to have everything in their own hands. But their acts began to outrage the moderate Protestants, who gradually adopted a courageous and determined passive resistance.

Reich Bishop Mueller's path, however, was not an easy one, because his own German Christians, who put him into office, were themselves divided into extremists and moderates. The extremists would do away with the Old Testament and revise the New; they wished to make a Nordic church, and that led to their famous Aryan clause which would exclude from the pulpit and the congregation Christian Jews who have been converted. They would look upon Jesus Christ not as a holy figure but as a historical figure. In the long run they would force all Germans, except Jews, into a German National Church, based not upon Christianity but upon the consecration of the virtues represented by the Nazi political faith. Perhaps the chief difference between the extremists and the moderates of the German Christians is that the latter would permit the continued existence of the Catholic Church in Germany.

At a jubilant Nazi meeting in the Berlin Sportpalast on Nov. 13, in celebration of the overwhelming vote of endorsement to Hitler the day before, the Rev. Dr. Reinhold Krause, chief of the Berlin German Christian extremists, made a speech which brought to a head all the smoldering opposition of the Protestants who sympathized with Dr. von Bodelschwingh.

Dr. Krause declared: "The crucifix is to be discarded. Everything that sprang from the alien spirit must be removed from the German people's church, be it ever so old and apparently venerable. The Holy Places of Palestine must not be visited, but those of Germany. The Old Testament must be excluded and palpably misrepresenting or superstitious reports of the New Testament must be stricken out. In the German Church men of alien blood have no place, either on or under the pulpit."

Indignation at these extremist statements strengthened the opposition which had already begun to rally in support of the Rev. Martin Niemaeller, one of the old-line Protestant ministers, a submarine captain during the war and long a member of the Nazi party, who, however, had dared to voice his disapproval of anti-Semitism in the church on the ground that it was incompatible with the teachings of Christ. He is pastor of an influential church in the fashionable part of Berlin and also the president of the Pastors Emergency Federation, which comprised some 3,000 ministers who endorsed the new polit-

ical régime but were opposed to the attempts of the German Christians to "regiment" the church. Because of his opposition he was suspended from his pastorate by Dr. Hossenfelder on Nov. 11, but, as it was feared that the news of this suspension might have an adverse effect on the national election next day, the suspension order was revoked until after the election.

After Dr. Krause's extremist utterances at the Sportpalast, Dr. Niemaeller refused to obey the suspension order. He went further and demanded of Reich Bishop Mueller that he dismiss Dr. Hossenfelder and the members of the Supreme Church Council who had been present at the Sportpalast meeting and had seemed to endorse Dr. Krause by their presence. The Reich Bishop was embarrassed by the extremist fanaticism of one wing of his German Christian supporters. To prevent a split in the newly formed German Evangelical Church, he repudiated Dr. Krause's remarks as being those of a private individual and not of an official of the church. He also complied with the demand that he dismiss certain officials who had been present at the Sportpalast meeting. Dr. Hossenfelder, however, remained firm and defiant for a few days and was reported to have the backing of General Goering; but he too resigned on Nov. 18 from the Spiritual Ministry.

Dr. Mueller, who was Hitler's man, was seriously weakened in his prestige and authority by this conflict within the church. His consecration as Reich Bishop, which had been scheduled to take place in the Berlin Cathedral on Dec. 3, was postponed. His Spiritual Ministry resigned, and new men whom he appointed refused to serve. His attempt to regiment the church by ordering that on Dec. 3 all pastors throughout Germany should use a Bible text and hymns which he prescribed was generally disregarded by a large part of the 3,000 insurgent pastors as an unwarranted interference with the liberty of individual ministers. Many of the insurgents demanded the meeting of another general Church Synod on the ground that Nazi tactics prevented the Wittenberg Synod in September from being a truly free and representative ecclesiastical assembly. A new Synod would probably result in the deposition of Bishop Mueller.

Possibly with a view to forestalling this, and in the hope of restoring unity to the German Evangelical Church, Bishop Mueller resigned his protectorate of the Nazi German Christians Society on Dec. 4. Simultaneously, in a pastoral letter to the members of his ecclesiastical cabinet and all officials in the administration of the church, he forbade membership "in all ecclesiastic-political organizations, leagues or parties." But it was doubtful if his eleventh-hour abandonment of the German Christians Society would effectively restore him to the confidence of the old-line Protestants and maintain him in office.

The struggle of the 3,000 insurgent Evangelical pastors against extremist Nazi domination has incidentally given courage and strength to the two other important Christian groups in Germany. The Union of Free Evangelical Churches, embracing Methodists, Baptists and Congregationalists, was assured by the government that there was no thought of infringing on its rights by any attempt to "coordinate" it with the Lutheran-Calvinist Evangelical Church. The Roman Catholics also became more outspoken in demanding the full observance of the rights guaranteed to them under the

recent Concordat. Cardinal Faulhaber of Munich, in an appeal from the pulpit on Dec. 3 urged German Protestants to make common cause with the Catholics in defending Christianity against the racial and pagan teachings of the Nazis. He issued a warning against the efforts being made to repudiate the Old Testament and even Christ for the sake of racial ideology. "In such a situation," he said, "a Bishop cannot keep silence. Not blood but faith is the foundation of religion."

This religious movement to preserve the church from interference by the State marks the first serious check which Hitler has received and defeats the hope which he is said to have entertained of coordinating the Protestant and Catholic Churches into a single organization. The Chancellor sought to dissociate himself from the conflict by ordering on Dec. 1 that the controversy was to be regarded purely as an internal church matter, and that consequently the State authorities were not to interfere with the negotiations which Reich Bishop Mueller had undertaken with the various church groups in order to restore peace and unity.

THE VOTE FOR HITLER

In accordance with Chancellor Hitler's announcement, made in connection with his notice of Germany's intention to withdraw from the League of Nations, the German people were summoned to the polls on Nov. 12 to vote on two questions: (1) Whether they endorsed as their own the policy of the Hitler government, and (2) whether they would vote for the Nazi list of candidates—the only list put before them—for new members of the Reichstag.

Out of an eligible electorate of about 45,000,000, more than 43,000,000 cast ballots. In the plebiscite on the first question endorsing Hitler's policy the vote was: "Yes," 40,583,430, or 93.5 per cent; "No," 2,952,100, or 4.7 per cent; invalid, 789,999, or 1.8 per cent; total, 43,525,529.

For the Nazi candidates for the Reichstag there was slightly less enthusiasm: in favor, 39,621,437, or 93.5 per cent; invalid votes, 3,348,125, or 7.8 per cent; total, 42,969,562. There was no opportunity to vote for any rival candidates, as all the rival parties had been either crushed or "coordinated" with the Nazis. Ballots were regarded as invalid if they were unmarked, if the method indicating the voter's intention was technically incorrect, or if the ballot was so marked that the clerks were unable to discern the voter's wish.

The vote was a remarkable endorsement of Hitler by an overwhelming majority of the German people. This is true even if one makes allowance for the fact that many people undoubtedly voted in his favor because they did not dare do otherwise.

REICHSTAG FIRE TRIAL

In the course of the long trial to discover the authors of the burning of the Reichstag Building, General Goering was called as a witness on Nov. 4. He denied most emphatically that he had anything to do with it, and then violently denounced German Communists and communism in general in a manner which would have been more in place on the campaign stump than in a court of law. When Dimitrov, the Bulgarian Communist defendant, protested, he was expelled from the court room, giving the impression that a judicial body was being turned into a political meeting. Dr. Goebbels followed Goering in somewhat the same strain, but with less violence of speech.

The court was startled on Nov. 13 by

the chief defendant's sudden change of attitude. For seven weeks Van der Lubbe had sat completely doubled up and in an apparent stupor. Only an occasional idiotic grin revealed that he was at all conscious of what was going on around him. The efforts of the judge to draw answers from him had been almost fruitless. But now he suddenly sat up; the greenish pallor of his face vanished; his body lost its apathetic immobility, and he was nervously eager to talk. As in the preliminary investigation he asserted that he alone had set the fire; and he explained again in detail how he had done it. But no further light was shed upon his alleged accomplices.

COORDINATED LEISURE

In the process of gathering the workers of the dissolved labor unions into new Nazi organizations a new German labor organization known as NDA, the initials being taken from the name, *Nach der Arbeit* ("After Work"), was formed on Nov 27. It aims to guide recreation in the leisure hours after the day's work and at the same time indoctrinate workers more completely with Nazi ideals. Dr. Ley, the head of the German Labor Front, who is organizing the NDA, declared that "the belief of the former rulers, that a full stomach alone meant happiness, is pure madness." Provision must be made for the healthful and enjoyable occupation of the leisure hours. The NDA is obviously an adaptation of the Italian organization, *Dopo Lavoro.*

AUSTRIA'S INSTABILITY

Chancellor Dollfuss has continued energetically his efforts to preserve the independence of Austria and his own dictatorial power from the attacks of Nazis sympathizing with Germany and of the Socialists who are opposed to his Fascist methods. But his difficulties have increased rather than diminished, owing to the growing opposition between two of the parties on which he rests for support—the Fascist Heimwehr under the leadership of Prince von Starhemberg and the new National Corporative Front, made up largely of the Peasant party under Franz Winkler, former Vice Chancellor.

Because of this conflict on four fronts the doughty Chancellor looked forward with some anxiety to the fifteenth anniversary on Nov. 12 of the founding of the Austrian Republic. As this was also the day of the German elections and plebiscite for the endorsement of the Hitler régime he feared demonstrations by the Austrian Nazis and the various other factions in Austria. To prevent disorders he proclaimed martial law, thus reviving the death penalty which was abolished at the establishment of the republic. His measures were entirely successful, and the anniversary passed without any more serious consequences than the arrest of some 225 Socialists in Vienna.

SWITZERLAND'S PROBLEMS

Following Germany's withdrawal from the League of Nations, the Swiss Federal Council began to consider the state of military preparedness of Switzerland. This action was also stimulated by reports that the Germans had a plan for the invasion of France through Switzerland, reports which were emphatically denied by General Blomberg, the German Minister of Defense. Nevertheless, the Swiss Government on Nov. 16 approved a large increase in the military budget for the purchase of eighty new airplanes and additional machine guns, rifles and artillery.

In the Swiss cantonal elections of

Geneva, at the beginning of November, the Nationalist Parties lost eight seats, which were won by the Socialists. The leader of the Socialists was Léon Nicole, who was condemned in connection with the Geneva disorders a year ago in which several persons were killed and who had just been released from prison. The Communists were eliminated altogether.

Italy's Plans for the Corporate State

By WILLIAM E. LINGELBACH
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ITALY is apparently about to carry closer to completion the development of its "Corporate State." Mussolini on Nov. 13 announced that the Chamber of Deputies was to be superseded and its duties absorbed by the National Council of Corporations. "The Chamber has never pleased me! * * * It must be replaced by the National Council of Corporations," he declared at the end of the Autumn session of the council in which the question of the final step in the establishment of the Corporate State and the breakdown of the capitalistic system were discussed with much insight and vigor.

The capitalistic system, the Duce declared, is dead and socialism decadent. The economic liberalism of the past, like the political liberalism of our time, is out of date in the modern State, where social control and planning have become inevitable. At the same time, he again pointed out that this is not inconsistent with the recognition of private capital and private initiative within proper limits. Italian production, agricultural and industrial, must be, he declared, planned and "disciplined" on a national scale.

The Council of Corporations, organized in March, 1930, at present consists of 117 representatives of the thirteen corporations, eleven each of employers and employes of industry, nine each of agriculture, seven each of commerce, nine each of air and sea transport, five each of land and internal water transport, five each of banks, five of the professions and the arts and twenty-five of labor. The membership is augmented by representatives of different Ministries, veterans' organizations, marketing corporations, securities companies and insurance associations. Outside Soviet Russia, it would seem to be the largest and most important national planning organization in the world today. Details as to its reorganization and how it is to function have not been announced, though the broad lines which have been indicated involve the inclusion of representatives of new economic categories or guilds and a working out of a mode of procedure to coordinate economic with political functions.

In the meantime the highly centralized administrative system has been given a new impetus by Cabinet changes. Early in November the resignations of Admiral Sirianni, the Minister of Marine, and of the popular Air Marshal Balbo, the Minister of Aeronautics, were announced, the two posts being absorbed with that of the Ministry of War into that of National De-

fense, which is held by the Duce. Marshal Balbo was made Governor of Lybia. According to advices, the change, as in the case of Dino Grandi, is in accord with the accepted principle of rotation in office and the desirability of affording the widest training for the future leaders of Italy.

Mussolini, in remarks to the press on Nov. 18, frankly stated his conviction that an official press was essential: "The journalist is a soldier of the advance guard. He wields the most powerful and also the most dangerous weapon, the pen. * * * The musketeering journalism of the past is gone. * * * Fascism wants a journalism of its own. The journalist must serve not himself but an idea. There must be homogeneity in a newspaper from the first page * * * [its] duty is to exalt what is good, sane, beautiful and heroic."

The Duce on Nov. 21 prohibited the importation of foreign wheat for domestic use. After eight years the "Battle of the Wheat" has been won, he said. No longer is it necessary to permit millers to use even a small percentage of imported wheat in their flour. The official report on the year's production of wheat gives a total of 22,064,400 bushels, marking the highest production per acre in the history of the country. For the six years before the "Battle of the Wheat" the average production was 13,892,400 bushels as against the average of 17,978,000 for the past eight years.

How thoroughly the groundwork for the improvement of the material equipment of agriculture, industry and commerce has been laid is seen in the highly developed system of credit for financing business enterprise and the effort to direct the flow of national savings into the channels best calculated to promote prosperity. According to the report of the Association of Italian Corporations there are fifteen extra-State *(parastatali)* credit institutions to facilitate the extension of credit to worthy business enterprises. Two of the most important —the Instituto Mobiliare Italiano and the Instituto per la Ricostruzione Industriale—provide long-term credit to worthy business enterprises.

Through these fifteen institutions a credit system has been built up "which provides for the needs of all branches of production" and relieves the deposit banks of the burden of financing business. Incidentally, the same report draws attention to the gradual growth of national wealth, pointing out that during the four years from 1929 to 1932 the number of Italian savings bank accounts rose from over 4,800,000 to over 5,300,000 with a corresponding growth of deposits from 16,500,000 lire at the end of 1929 to over 20,000,000 lire at the beginning of the twelfth year of fascism. The great increase in the number of depositors was hailed by the Duce early in the month as unusual evidence of the confidence of the people in the government. The 5,000,000 depositors with their families represent, he claimed, at least 20,000,000 people—50 per cent of the population. Further evidence of this confidence is seen in the steady appreciation of Italian securities. At the beginning of November, the 5 per cent consols were quoted at 94.25, as against 80.50 in 1929 and 82.40 in 1932, the 3½ per cents showing a similar appreciation at 89.70.

CONSERVATIVES WIN IN SPAIN

In the elections for the Spanish Cortes on Nov. 19, and again in the re-election on Dec. 3, the Conservative parties of the Right gained a victory far beyond their most sanguine expec-

tations. In the reports immediately following the election, the Right, which includes Monarchists, Agrarians, Catholic Action, Basque-Navarrists, Galician Federation and others, claimed over 180 seats, while the best the Left could safely count upon was 136. The incomplete results were due chiefly to the fact that re-elections had to be held in cases where no party received 40 per cent of the total vote. Since nineteen parties were officially recognized, this situation arose in about thirty districts and re-elections were accordingly held in sixteen provinces. In preparation for these, and confronted with the prospect of a reactionary Cortes, Republicans and Socialists began hastily to patch up their differences and present a united front in order to recover, if possible, some of the ground they had lost. But, despite their desperate efforts, the strong current toward the Right continued in the second election also. For once the parties of the Right were better led, and reaped to the full the reward of bringing about cooperation among the conservative groups early in the campaign. Although complete official returns are not yet available, it is clear that the Right is sure of a working majority in the new Cortes.

Indications of the coming landslide had appeared in the elections of the Court of Constitutional Guarantees, but no one foresaw the extraordinary energy and enthusiasm with which the people would rally to the support of their candidates. Article 36 of the Constitution provides for a liberal franchise according to which "citizens of both sexes over the age of 23 shall have equal voting rights in accordance with the laws." This brought to the polls about 12,500,000 voters, more than half of them women, who seem to have quickly learned much of the technique of electioneering.

Speaking of the Conservative victory, José Marie Gil Robles, the astute leader of the Catholic party (Accion Popular), said: "The great victory of our candidates exceeds even our expectations." Newspapers of the Conservative group, like *El Debate,* heralded the triumph as a complete repudiation of the sectarian policy of the Azaña government. According to Associated Press reports, the Vatican is particularly pleased with the results because they indicate clearly that the policies of the recent Cortes in regard to the church and religion were not in accord with the sentiment of the Spanish people. On the other hand, *El Socialista,* the organ of the Socialists, sarcastically suggests a more sordid explanation of the Conservative victory, declaring that the Right had "access to economic coercive measures which were inaccessible to us." To shrewd observers the defection from the government ranks several months ago of powerful newspapers like *El Sol* was even then an ominous foreboding of the disaster awaiting the parties of the Left. Republican and Socialist organs expressed bitter disappointment, venting their spleen upon the leaders responsible for the feuds and personal self-seeking which divided their ranks, or, like *La Nacion,* denouncing "the shameless alliance of Catholics and Freemasons." Incidentally, too, the Republicans and Socialists are no longer as enthusiastic as they were about the emancipation of women, rather ruefully recalling the warning of Señorita Victoria Kent, one of the three women Deputies of the Constitutional Cortes, that "Spanish women are not yet ready for the ballot."

Under Article 58 of the Constitution, the new Cortes is subject to convene at the call of the President, or automatically without such convocation by

the Executive, on the first weekday (not a holiday) of February. What its policy will be on such burning matters as the land question, education, and the church will be awaited with the keenest interest. Judging by the restrained expressions of the leaders even of the extreme Right, a moderate course is likely. In expressing its confidence that "prudence and patriotism" will prevail, *El Debate* suggested the formation of "a government of the Centre with the collaboration of some of the anti-Marxist elements." Unhappily, the spirit of conciliation and cooperation does not pervade all classes, and rumors of preparations by the Communists and Syndicalists spread rapidly as the results of the election became known. In Madrid a large mob staged a demonstration in front of the home of the veteran radical leader, Alejandro Lerroux, shouting "Down with Lerroux!" "Death to the Radical Republicans!" until the mob was dispersed by the police and the troops. In Barcelona, where strikes of shop, office and street-car employes had thrown nearly 50,000 out of work, the authorities were obliged to act promptly and vigorously, closing Syndicalist headquarters, arresting the leaders and segregating several hundred on a prison ship. Similar conditions in other cities led to the proclamation of a "state of prevention," (something akin to martial law), which the Prime Minister had been unwilling to proclaim during the elections.

The elections disclosed an unsuspected situation in Catalonia, where Colonel Macia and his Esquerra Republicana party were supposedly complete masters of the semi-autonomous government. No one was prepared for the victory of the opposition, the Lliga Catalana, which is much more conciliatory on the question of State rights and autonomy. In the meantime the administration of justice in Catalonia has been transferred from Madrid to Barcelona, restoring to the Catalans the control of justice taken away early in the eighteenth century. On the other hand, the transfer of the control of the finances and of police power has for some reason been deferred. Catalonia has apparently become more favorable toward the National Government in Madrid. While the separatist tendencies in Catalonia have weakened, the Basques, by a large referendum vote of over 85 per cent of the electorate, endorsed the home rule statute prepared by the Cortes.

PORTUGUESE CORPORATE STATE

The Portuguese Government announced on Oct. 20 that it was preparing to set up a Corporate State and would shortly promulgate measures looking toward general elections for the new institutions early in 1934. Professor Oliveira Salazar, Prime Minister under Dictator General Carmona, has developed machinery for a "corporative State" providing for, besides a President, a Council of State, Cabinet, National Assembly, Corporative Chamber and Courts of Justice. In general, the system lies somewhere between a Fascist State and the British parliamentary system. The assembly would sit for three months only, and would have no control over the Ministry, which is to be responsible to the President, who, elected for seven years, would be assisted by an advisory body, the Council of State. The electors are designated as the "educated heads of families," whatever that may mean.

European Alliances in the Making

By Frederic A. Ogg
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Two overlapping groups of States in Central and Southeastern Europe have been advancing toward a new economic and international orientation. One group is the already solidly established Little Entente, consisting of Czechoslovakia, Yugoslavia, and Rumania; the other is a combination composed initially of Yugoslavia, Rumania, Greece and Turkey, but with Bulgaria and Albania as possible later additions. At a number of points Austria and Hungary are closely related to the new alignments.

The Little Entente definitely began tightening its lines last February by adopting a series of "statutes" which provided in the future for a common foreign policy. New studies of the interrelations of the three States in trade and transportation culminated in the setting up of a joint economic council for the preparation of plans for closer economic and business relations. Soon after the Sinaia conference in September, 1933, the Italian Government threw into the hopper a project for Danubian economic confederation, based on bilateral agreements for mutual preferential treatment on agricultural and industrial products. This plan, which is reported to have been endorsed by France, has loomed prominently in recent discussions. The governments at Prague, Belgrade and Bucharest, however, have their own ideas on how to proceed, and any solution is likely to be fundamentally of their own making. Foreign Minister Benes of Czechoslovakia has said that without doubt the Little Entente will become an economic unit, even if considerable time, possibly years, will be required to carry it to this goal. Meanwhile the Economic Council, which met in Prague late in November, was scheduled to continue discussion of such matters as unification of railways, waterways, telegraph and telephone services, and postal areas, correlation of legal practice relating to commercial matters and uniformity of customs duties.

Aided by recent Greco-Turkish, Turko-Rumanian, and other treaties of friendship, the second group of States has similarly been feeling its way in the direction of an ordered economy. At the head of the agenda of the Fourth Balkan Conference, held at Saloniki early in November, was the formation of a customs union of the Balkan States. After the meeting it was understood that preliminary conversations had begun preparing the way for a four-power Balkan pact to include Rumania, Yugoslavia, Greece and Turkey. Although Premier Tsaldaris of Greece denied that negotiations had proceeded far, it was reported from Istanbul on Nov. 22 that not only were the four States about ready to sign a pact, but that Bulgaria and Albania would be invited to participate. Unofficial delegates of the former indicated at Saloniki that their country was prepared to adhere. While there was skepticism in some quarters, it seemed likely that Sofia, especially if confronted with an ac-

complished fact, would consider co-operation more likely than isolation to win a sympathetic hearing for Bulgarian claims in the matter of its minority problems and an outlet to the Aegean Sea.

CZECHOSLOVAKIAN AFFAIRS

"While treaties are being made, Czechoslovakia will make treaties. If machine guns are fired, it will be ready to fire machine guns, and if cannon, it will be ready to fire cannon also." So asserted Foreign Minister Benes in the Czechoslovak Parliament on Nov. 8 in reply to the criticism that his international policies place too much faith in the sorely beset League of Nations. The language sounded jingoistic, and by some was construed as a warning to unfriendly neighbors. Viewed in the context of Dr. Benes's words and acts over many years, however, it is found tantamount only to an assertion that the Prague government's rôle in the international arena is to continue to be one of sturdy individuality and defensive strength.

A week before this speech, Dr. Benes had, indeed, in a lengthy address before the foreign committees of the National Assembly, reviewed the entire international situation of Europe as affected by the German Fascist Revolution, and indicated the ways in which the policies of his own country were likely to be influenced. The tone adopted was by no means that of an alarmist. "We do not see in the recent move of Germany," he declared, "anything which can soon cause a catastrophic crisis, but we follow attentively the developments, and will arrange our movements for the future accordingly." Indeed, the speaker was able to find in the new situation certain actual gains, since policies had been brought into the open and problems, such as that of disarmament, given clearer definition. The Pan-Germanic substratum of Hitlerism was pronounced nothing new, though it was set down as a factor in international politics which, since it has in no wise been extinguished by Germany's experience of the past twenty years, Europe may profitably be apprized afresh, in order that the nations may "take it into account as a simple fact and act accordingly."

As for Czechoslovakia, the foreign policy of her government will continue, Dr. Benes asserted, on the following major lines: (1) Full support of the Little Entente, and of its program of economic union; (2) unswerving maintenance of the peace treaties; (3) support of the Disarmament Conference as "the only authorized forum for the successful solution of the question of disarmament"; (4) maintenance of correct relations with Germany; (5) "intimate and faithful co-operation, friendship, and alliance with the democratic French Republic," as the very basis of Czechoslovak foreign policy; (6) continued development of friendly relations with Poland on the north and Austria on the south; (7) efforts to bring about normal diplomatic and economic relations with Soviet Russia; and (8) renewed attempts to improve relations with Hungary, without, however, much present prospect of success. To this program may be added the purpose to resist any proposals, such as Dr. Benes thought likely to arise, aimed at breaking down the principle of the equality of nations at present upheld by the league.

The national budget for the coming year, submitted to the Chamber of Deputies by Finance Minister Trapl on Nov. 6, showed not only a small surplus but a reduction in expenditure

of over 1,000,000,000 crowns ($29,600,000 at par), as compared with its predecessor. No fresh burdens were placed on the taxpayer beyond the possibility of a small surtax on incomes to be payable only by persons not accepted for military duty. Special economic powers conferred on the Executive last July were, at the Cabinet's request, extended to June 30, 1934.

POLISH-GERMAN RELATIONS

Fifteen years after the World War Poland finds her relations with Germany the most vital problem of her international position. Perhaps this was true before Adolf Hitler's rise to power; unquestionably it has been true since that event. To be sure, the near panic which swept over Poland when the Brown Shirt leader became Chancellor of the Reich subsided when it became apparent that it was no part of his plan to start a war at once. More recently, indeed, the relations of the two countries have seemed decidedly amicable, and diplomatic correspondence has been studiously correct. Conversations between Herr Hitler, Herr von Neurath and M. Lipski, the Polish Minister to Berlin, culminated in mid-November in statements on both sides which have been heralded as amounting to an unwritten non-aggression pact. Negotiations for a trade agreement to end an eight-year tariff war have been resumed; the government-controlled radio station in Warsaw has been under strict orders to broadcast nothing that would be displeasing across the border; and a Polish-German football match in Berlin has been proposed. Observing the tendency of Hitlerism to alienate European sentiment from Germany and to leave the country isolated, Poles have even been heard to remark that the Nazi leader is the best friend that their country has.

Beneath the surface, however, there is suspicion and anxiety. More than once Chancellor Hitler has hinted at a revision of national boundaries as a main objective of his régime, and few Poles, recalling the facts of history as well as the existence of 1,400 miles of open frontier between the two countries, doubt that sooner or later expansion at their expense will be threatened. Germany, they say, is now, as always, a country without fixed and accepted boundaries. Geographically as well she is perpetually, in the phrase of Spengler, "a country in the making." Not one of her neighbors of the last 300 years but knows what that means. Today she covets the Polish Corridor; tomorrow she will want Memel and the Saar; the day after, something else. Confronted with a neighbor of such fluidity and acquisitiveness, Poland, it is believed, will always be insecure.

Already the question of the Corridor has precipitated a verbal clash. Learning that in one of his speeches Chancellor Hitler had strongly intimated that the disputed territory must be recovered for Germany, M. Miedzinski, a leader and chief spokesman of the Pilsudski party, summed up the Polish position in a forceful remark in the Sejm, "If Hitler wants the Polish Corridor, let him try to take it." In the *Gazeta Polska,* of which he is editor, he asserted with equal vigor, "Our reply to all German claims is our guns." As a writer in the *Manchester Guardian* observed, "if Marshal Pilsudski were to ask his countrymen, by plebiscite, to express their opinion of his seven years' rule, he would receive no unanimous reply as regards his home policy; but he would certainly get strong support of his foreign policy toward Germany." That policy is one of uncompromising hostility to-

ward every suggestion of boundary revision.

As for the tariff war, which would have been ended in 1929 had the German Reichstag ratified a commercial treaty concluded in that year, neither country has profited by it, but Poland has suffered a good deal less than Germany expected. Having lost one of her best customers for agricultural products, Poland by special effort found others, particularly Great Britain, with whom she is now doing business on even more profitable lines. Moreover, having stopped importing German machinery and chemicals, she has developed production of these commodities by her own industry, and on the whole is now more nearly self-sufficient than before.

RUMANIAN CABINET CRISIS

A long-developing Cabinet crisis in Rumania came to a head in mid-November, resulting in the most sweeping political change that the country has experienced for five years. Except during the brief dictatorial régime headed by Professor Jorga, the National Peasant party has been in power since 1928. With its aid the exiled Prince Carol was able to regain the throne in June, 1930. Though Dr. Julius Maniu, the party's founder, later found himself unable to work with the youthful monarch and retired both as Premier and as leader of the party, Alexander Vaida-Voevod, who succeeded him, for a good while held the reins with every appearance of success.

Recently, however, the Cabinet's handling of affairs provoked increasing opposition. Internal discord developed within the party, while financial policies undertaken or supported by Vaida-Voevod and his colleagues forced the King into closer relations with the rival National Liberty party and undermined the Premier's position generally. Obligations arising from an agreement with the financial experts of the League of Nations had not been fulfilled; a transfer moratorium which was put into effect without consulting the country's creditors stirred protest; the rank and file of the governing party, largely peasants in distress, were clamoring for inflation, against the desires of the banking and industrial interests. A more purely political factor in the Premier's downfall is said to have been French resentment toward his tolerance of Fascist elements which were undisguisedly sympathetic with Mussolini and Hitler.

The upshot was that, without waiting for defeat in Parliament, Premier Vaida-Voevod, on Nov. 12, handed in the government's resignation, which was promptly accepted. Turning to the National Liberals, the party of the famous Bratianu family, the King commissioned Jon Duca, its leader, to form a Cabinet. Three days later the list was announced, its most notable feature being the continuance of Nicholas Titulescu as Foreign Minister.

To a limited extent, the change of government may be interpreted as a shift toward the Right, though in general, there is no broad distinction between the two parties so far as fundamental political principles are concerned. One of the first decisions of the new Cabinet was to deal severely with Fascist and other reactionary tendencies. Continuance of M. Titulescu, a statesman devoted heart and soul to the cause of France and the Little Entente, in the portfolio of foreign affairs was taken to mean that there would be no important changes of policy in respect to the country's dealings abroad.

Assuming entire responsibility for

what had happened, M. Vaida-Voevod, at a meeting of National Peasant leaders on Nov. 15, conceded that his inability to find a basis for agreement with the King had brought disaster upon the party and forthwith resigned his leadership.

HUNGARIAN FOREIGN POLICY

The many peculiarities in the international position of Hungary never fail to lend interest to what her statesmen have to say on matters of foreign policy. Two statements of some length, one by Foreign Minister de Kanya in the Upper House on Nov. 10, and the other by Premier Goemboes when interviewed by newspaper men in Vienna on the occasion of a visit to Chancellor Dollfuss, contained, as reported, nothing novel or startling, but taken together constituted a good review of the whole subject. Perhaps M. de Kanya's most significant points were that, although political differences between Hungary and the Little Entente are serious, the former is willing to try to alleviate the situation by cooperation on economic lines. Nevertheless, no Hungarian Government, he said, would ever agree to economic *rapprochement* if the price were a promise to refrain from all agitation of Hungarian political aims. Premier Goemboes asserted that his country has no intention of following Germany out of the League and the Disarmament Conference, that Hungary's paramount interest is the peaceful revision of the peace treaties, and that economic cooperation among the Danubian countries can best be attained, not through a multilateral treaty as often proposed, but through a system of bilateral treaties to be extended as developing interests dictate.

A Legitimist dinner in Budapest on Nov. 22, attended by 2,000 persons in honor of Archduke Otto's twenty-first birthday, furnished occasion for demonstrations in the course of which large numbers of those present, including many clergy, were subjected to insults. Leaflets against the Prince as "a scion of a family which oppressed Hungary for 400 years" were distributed; anti-Habsburg songs were sung; an effigy of the Prince was dragged through the streets and hanged from a lamp-post. The government itself confiscated all invitations and circulars issued in connection with the dinner because they referred to the Archduke as "His Majesty, King Otto II." Count George Apponyi protested strongly in Parliament, and the Legitimist group resolved to force the government to make fresh declaration of its attitude toward the dethronement law, a measure which, from the Legitimist viewpoint, was passed under foreign pressure and has no more justification than other "dictated" laws resulting from the Trianon treaty.

MR. INSULL IN GREECE

Official relations between the United States and Greece have recently been disturbed by the case of Samuel Insull, the utilities magnate. On Oct. 31 the second application of the Washington government for the extradition of Mr. Insull was, like the one of December, 1932, rejected by the Greek Supreme Court, after a ten-day hearing. The decision was not unanimous. Against the opinion of two of the five judges (it is understood), the president and the remaining two held that deliberate intention of Insull company officials to evade the bankruptcy laws of the United States had not been proved. All affidavits submitted in support of the American case were thrown out.

Apparently the 74-year-old ex-financier talked less exultantly than after his victory of last December, but was nevertheless quoted as declaring that he was now ready to "go to work again." Popular with the Greeks, he was reported to be considering taking a Greek name, becoming a Greek citizen and even standing as a candidate for Parliament. The State Department canceled his passport several months ago; and since he could not go to any other country with which the United States has an extradition treaty without subjecting himself to arrest, it was believed that he would make no attempt to leave the land that had given him refuge.

Surprised and disappointed at the results of their latest efforts, American officials refused to accept the verdict as closing the matter. Extradition, however, was abandoned and on Nov. 4 Lincoln MacVeagh, American Minister at Athens, delivered by instruction to the Greek Government a note expressing "astonishment" at the court's action, charging that the judges had attempted to try the case instead of confining themselves to determining the merits of the request for extradition, denouncing the extradition treaty as "entirely useless," and giving notice that it would be terminated as soon as the necessary formalities could be complied with. The treaty had been in effect only since Nov. 1, 1932; indeed, it had not yet been proclaimed when the fugitive utilities operator sought asylum in Athens. Although its duration was five years, it was terminable by action of either signatory after one year. The instrument was generally similar to others which our government has concluded with as many as eighty-five different countries and is the first to be terminated through denunciation, because of American dissatisfaction, in nearly twenty-five years.

Extradition having become impossible, American effort was turned to inducing the Greek authorities to deport the accused as an undesirable alien. This would be an administrative, rather than a judicial, act, performed in accordance with Greek usage by the Minister of the Interior with approval of the Foreign Minister and the Minister of War. The Greek authorities, however, not only sent a note to Washington insisting that the Athens judges had acted within their rights, but declared through Premier Tsaldaris that, however willing they might be to comply with the request for deportation, there was no proper ground on which they could act. Three factors, indeed, seemed to enter into this further refusal: (1) The two judicial verdicts, which, it was argued, set up a strong presumption against action; (2) the misinterpretation which, it was alleged, would arise from the fact that Mr. Insull is not of the political faith of the Washington administration, and (3) the idea that to surrender the fugitive after all that has happened would stultify Greece in the eyes of people everywhere.

Early in December, some reason appeared for thinking that, notwithstanding these considerations, the continued American demand for deportation might eventually bear fruit. It became known that under his existing permit Mr. Insull would be entitled to remain on Greek soil only until the close of 1933. While the permit might, of course, be renewed, Premier Tsaldaris was quoted as saying that Mr. Insull's presence in Greece was detrimental to the country's friendly relations with a nation credited with fair treatment of 300,000 Greek residents, and that he would "endeavor to find a way to deliver over the accused to American justice."

Denmark's International Troubles

By SIDNEY HERTZBERG

THE extent to which Denmark's well-being depends upon the political and economic requirements of her neighbors has been sufficiently illustrated during the past few months by events in Great Britain and Germany. It is, in fact, no small tribute to Denmark that, despite its smallness and its dependence on foreign markets, it has been able to maintain a degree of independence and originality in domestic affairs that could give it a legitimate basis for the exaggerated nationalism which it has consistently abjured.

Danish farmers now stand to lose about 50,000,000 kroner ($13,400,000 at par) annually because Great Britain has succeeded in raising the level of its home production of bacon. Under the terms of the Anglo-Danish trade agreement reached last April, Denmark was assured of not less than 62 per cent of the total British imports of bacon. The Danes thus felt that their vital British market was safe. Great Britain, however, soon restricted bacon imports so that during the three months ended in June, 1933, they amounted to only 17 per cent of the imports for the corresponding quarter in 1932. Denmark estimated that it was thus selling to Great Britain about 60 per cent of the previous year's sales.

The further loss is the result of a 16 per cent cut in bacon and ham imports authorized by the British Government on Nov. 1. When the British Ministry of Agriculture succeeded in increasing the home output of bacon, it requested the Danes to accede voluntarily to a 20 per cent reduction. Denmark refused and sent a delegation to London which entered strong but futile objection. The British Government then imposed the cut. It will be effective at least until Feb. 28, 1934.

Until the outcome of this difficulty was definitely known, the Danish Government postponed consideration of the farm relief legislation pending in the Folketing. But whatever is done along these lines, the Danes will have to give even greater attention to their foreign markets. For the nine months ended September, 1933, Denmark's import surplus was 19,395,000 kroner ($5,197,860), against 1,620,000 kroner ($434,160) for the corresponding period in 1932.

It is one of the ironies of Denmark's present situation that its Cabinet, which is made up of eight Social-Democrats and three Radicals, should have to ask Nazi Germany to increase its imports of Danish products. After Great Britain, Germany is Denmark's best customer. Danish butter exports to Germany are governed by the German-Finnish trade agreement which lapsed at the end of 1933. Now Denmark is especially desirous of opening the whole question of its trade with Germany in the hope of nullifying, to some extent, the setback at London.

But the unrest along the Danish-German border and the utter incompatibility of the two political systems does not make the present a particularly propitious time for trade negotiations, which would be difficult

enough to carry on in easier circumstances. The Germans will have a small appetite for Danish bacon and eggs so long as the Social-Democratic party continues its attack on the Hitler régime; the German Government may even have taken the trouble to make this much clear to the Danish authorities. But Denmark's Social-Democracy, particularly its press and its leaders outside the government, may be depended upon to oppose vigorously German fascism even though Danish butter might never again be spread on a slice of German bread. An increase of cattle exports to Germany would be especially helpful to South Jutland, where the severity of the economic crisis has put the farmers in a more receptive mood for Nazi propaganda and has provided the government with its most acute problem. Germany can hardly be expected to overlook this state of affairs.

With respect to activities along the frontier, the Nazis seem to have learned another lesson in strategy from Soviet Russia. Just as the Soviet Government is never officially aware of the activities of the Communist International, so German officialdom has consistently resisted any efforts to link it with the pan-Germanism of party enthusiasts in Slesvig. Thus, while Nazi propaganda is carried on as intensively as ever, Foreign Minister Munch of Denmark was able to say on Nov. 19 that "as far as the Danish Government is concerned, Germany has not given the faintest indication of an intention to raise any question regarding the frontier." He was forced to add, however, that "it is a fact that some nervousness has arisen in South Jutland which has spread to the rest of the Danish people. The reason for it is to be found in certain demonstrations, speeches and newspaper articles, principally in the frontier zones. One must hope that such a disturbing expression of momentary excitement will gradually die away."

This feeling of uneasiness has resulted in a renewed exploration of the possibilities of closer cooperation among the Scandinavian countries. Early in October, Premier Stauning remarked in the Folketing that South Jutland provided the frontier not merely for Denmark but for all Scandinavia. "Any encroachment would be a matter for the whole of Scandinavia," he said. "No one is thinking of military alliances, but there is no doubt that the feeling of interdependence among the Scandinavian peoples is growing rapidly. It is a feeling of great moral value. It is my earnest wish that it should develop further."

This gesture brought a sympathetic response from Per Albin Hansson, Social-Democratic Premier of Sweden. "We in Sweden," he said, "much desire increased cooperation among the Scandinavian States. Personally, I should be very glad indeed if it were possible to establish more intimate relations, and I believe many will agree with me in this." On the whole, the Swedish press was ready to agree with him.

Premier Hansson and Gustav Moeller, his Minister for Social Affairs, visited Copenhagen on Oct. 26 for the ostensible purpose of attending the celebration of Premier Stauning's sixtieth birthday. It was officially announced, however, that the opportunity had been used to go over the question of Scandinavian cooperation. While no details were given, it may be accepted as certain that there is no immediate prospect of any kind of military alliance. Indeed, considering the present armaments of the Scandinavian countries, and particularly of Denmark, such an alliance would cause

little alarm in the War Ministries of Europe. But there is a wide range of social, economic and intellectual questions on which unity is possible. Nazi Germany presents a challenge to the traditions and ideals which are common to all Scandinavia. It is felt that this challenge can be met more effectively by a united front along as many lines as possible.

No official moves in the direction of increased Scandinavian cooperation will be made until the Norwegian Storthing meets in January, when Premier Mowinckel can determine whether he has parliamentary support for his Cabinet. Should the Mowinckel government fall, a Socialist régime would probably take its place. Thus a political community of interest would be added to the existing racial and geographical ties in Scandinavia. Under such conditions, it should be possible to make real progress toward a goal which seems natural and desirable.

In the meantime, Premier Stauning has been resisting a growing demand, to some extent from his own followers, for an increase in Denmark's armament, although disarmament is still the defense policy of Denmark. The Danes, however, know that they could not repel a German invasion; the government therefore is satisfied at present with just enough soldiers to cope with Nazi ruffianism at the frontier.

FINNISH AFFAIRS

Germany notified Finland on Oct. 24 that it would not renew the trade treaty of 1926 and the supplementary agreements of 1930 and 1932, all of which expired at the end of 1933. The negotiations for a new pact are proceeding amid recriminations between the newspapers of the two countries. Germany has always regarded itself as a sort of big brother to Finland, and it naturally resents the reorientation of Finnish opinion implied in the Anglo-Finnish trade agreement and in the British Week in Finland celebrations.

The controversy of many years standing on the use of Swedish as a second national language in Finland has recently become particularly acute. Student demonstrations against Swedes and fights among schoolboys are not altogether unusual. In 1930 the Swedes in Finland numbered 342,916 in a total population of 3,380,748. Although the size of the Swedish minority has been more or less stationary, its ratio to the total population of Finland has declined steadily. In 1880 the Swedes were 14.3 per cent of the total; in 1930 they were 10.1 per cent.

All civil servants in Finland are required to know both Swedish and Finnish. Along the west coast, where the Swedes predominate, instruction in the schools is conducted in Swedish, but Finnish is a required subject. Similarly, in schools where Finnish is spoken, Swedish must be taught.

Most parties feel that the Swedes have been receiving a disproportionate part of the funds for educational purposes. The Swedes themselves will admit as much, but they point out that until now they have also made greater use of the educational facilities than the Finns. Probably some modification will be made in the civil service requirement, at least in sections where Swedish is not spoken. The most hopeful aspect of the situation is the fact that the Swedish party, and particularly its leader, Baron Ernst von Born, is prepared to agree to almost any solution that will appease the inflamed animosity of the Finnish students.

The Meaning of Russian Recognition

By EDGAR S. FURNISS
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THE new phase of American foreign policy inaugurated by President Roosevelt's anouncement of Nov. 17 that diplomatic recognition had been accorded the Soviet Union affects a wide range of world affairs. The other leading nations of the world at once accepted the event as a step forward in the cause of international peace, since it marks the beginning of stabilization in the relations of two great powers without whose cooperation the affairs of the world cannot be brought into equilibrium in any of the important areas of conflict. Recognition by the United States through its effect in strengthening Russia's position will add weight to her foreign policy both with regard to problems of general import, such as disarmament, and to specific causes of controversy, such as the relations of Germany within Europe. Our new policy has direct bearing, also, upon the situation in the Far East, dominated as it is by Japanese-Soviet relations in which our attitude is a factor to be considered by both parties. The implications of recognition for the future course of Soviet trade concern many European nations, and especially Great Britain and Germany, who have already begun to adjust themselves to the situation created by our new relations with the Soviet Union.

These broader aspects of American recognition will undoubtedly grow in importance with the trend of world events during the coming months. At the moment, however, the American people are more concerned with certain practical questions relating to probable effects on our own welfare and to the conditions accepted by the Soviet Union to obtain recognition. Few impartial people, however favorably disposed toward the abandonment of our non-recognition policy after sixteen years, have wished our government to accord the Soviet Union full standing in its diplomatic circle without safeguards definitely established in advance. The ten days consumed by negotiation in Washington—a period contrasting strongly with Litvinov's prediction of "a half hour" conference—were devoted almost wholly to formulating these safeguards. The results are embodied in a series of letters exchanged on Nov. 16 between President Roosevelt and the Soviet delegate acting in the name of his government. The significance of these documents, which comprise the essentials of the agreement, to the future of our own Soviet relations is alone sufficient to make them worth thorough study; in addition, they contain much that is of importance to an understanding of the present-day attitude and policy of the Soviet Government.

The commitments entered into by the Soviet Union cover all the points of controversy which lent support to our non-recognition policy, together with certain questions arising from the experience of other States with Russia which were added by President Roosevelt's advisers. Of chief concern,

perhaps, to the American people is the Soviet pledge regarding Communist propaganda. Litvinov's letter to the President on this point binds the Soviet Union "to refrain from interference in any manner in the internal affairs of the United States," and "to refrain and to restrain all persons in government service and all organizations of the government or under its direct or indirect control, including any organizations in receipt of any financial assistance from it, from any act overt or covert liable in any way whatsoever to injure the tranquillity, prosperity, order or security of the whole or any part of the United States. * * * and in particular from * * * any agitation or propaganda having as its aim * * * the bringing about by force of a change in the political or social order of the whole or any part of the United States." The Soviet Union also binds itself not to harbor within its territories any organization or group plotting armed attack upon the United States, its territories or possessions. Finally, and this is the really significant part of the statement, the Soviet Union undertakes "not to permit the formation or residence on its territory of any organization or group—and to prevent the activity on its territory of any organization or group, or of representatives or officials of any organization or group—which has as an aim the overthrow or the preparation for the overthrow of, or bringing about by force of a change in, the political or social order of the whole or any part of the United States."

These pledges indicate the extent to which the practical necessities of Soviet policy have suppressed the original revolutionary ardor of Russian communism. While the Soviet Union has been moved by its desire for diplomatic recognition by other countries to give them assurances on the question of propaganda, the Washington agreement for the first time goes to the heart of the problem by bringing under the ban the activities of non-governmental organizations as well as those of the government itself. The pledges, if strictly enforced, will oblige the Russian Communist party to abandon its doctrine of world revolution, and the Comintern (Third International) to withdraw its support from its section in the United States on pain of expulsion from its headquarters in Moscow.

This feature of the agreement, when fully examined against the background of Communist doctrine since the revolution of 1917, makes clear how far removed is presentday Soviet policy from that of Lenin and Trotsky. The Communist League of America, an anti-Stalin faction, characterized these pledges as "a complete renunciation and repudiation of the Comintern" and described the entire agreement as a surrender of all that is essential in communism. This militant Communist group views the document signed by Litvinov not only as the death warrant of the international working-class movement but also as a formal announcement by the Soviet Union that its policy hereafter will be dominated by purely nationalistic concerns. Despite the extravagant language of this embittered Trotskyist faction, one may detect in their statements a substantial measure of truth. It is noteworthy that, even under the desperate conditions prevailing in Russia in 1922, the Soviet delegation at Geneva refused to repudiate the Third International so as to be able to join the family of nations; and in 1925 Zinoviev, predecessor of Litvinov as Commissar of Foreign Affairs, again refused terms very similar to

those embodied in the Roosevelt-Litvinov agreement.

It should also be noted that President Roosevelt, in his letter of acknowledgment, dated the same day, gave similar guarantees to the Soviet Union. His words were: "It will be the fixed policy of the Executive of the United States within the limits of the powers conferred by the Constitution and the laws of the United States to adhere reciprocally to the engagements above expressed." There are in the United States many anti-Bolshevist organizations, ranging from patriotic societies engaged primarily in oratory to definitely conspiratory groups with a positive program of intervention in Russia. These we are now bound to suppress to the full extent of the power of the Federal Government in so far as they profess "an aim" to upset the political or social order of Russia. The degree of energy with which we discharge this obligation may have some bearing on our success in holding the Soviet Union to her promise.

Our financial claims against Russia were dealt with in two separate communications from Commissar Litvinov to President Roosevelt. These claims total about $800,000,000, comprising the original capital sums plus accrued interest, and are of two kinds--the claims of private individuals and business concerns for losses suffered in the revolution, and our government's holdings of the Kerensky debt. A settlement was not included in the written agreement, it being decided after discussion that all financial questions should be taken up through the regular diplomatic channels after recognition. In other words, President Roosevelt abandoned one of the points which were basic to our Soviet policy during the past sixteen years.

The Russians, however, made two concessions "preparatory to a final settlement of claims and counter-claims." The first waives the Soviet claim for damages on account of American military operations in Siberia after Jan. 1, 1918; the second assigns to the United States any moneys resulting from decisions of American courts in favor of the Soviet Union and undertakes to bring no new causes in our courts for past injuries. Our courts, it should be explained, have entertained suits brought by Russian nationals or the Russian Government for losses caused by actions of the United States or its citizens before the revolution of 1917. One such claim, involving a substantial amount of money, has already been decided in favor of the Russian litigants. Another brought on behalf of the Volunteer Fleet of Czarist Russia is now before the United States Court of Claims, and others are pending. Litvinov's undertaking turns over to the Treasury of the United States all moneys resulting from these suits, including the one already adjudicated; and it may be inferred that these funds will be used to indemnify American nationals in accordance with the final terms of settlement of our claims

Soviet counter-claims against us arise chiefly from the invasion of Russian territory by our armed forces in Eastern Siberia and in the Murmansk region after the revolution. The Soviet Union now waives all claims for damages on account of the military operations in Eastern Siberia, stating that "such claims shall be regarded as finally settled and disposed of by this agreement." By not mentioning the Murmansk expedition in this statement the Soviet Union has evidently reserved the right to use it to offset our government's claim on account of the Kerensky debt and the claims of our nationals for losses in-

curred in the revolution. At the first glance the United States appears to have won a tactical victory here, but any attempt to appraise it financially would be fruitless, since the Soviet claims arising from either or both of these military operations have never been presented to this country. Moreover, the likelihood of a complete settlement of all these claims and counter-claims is extremely remote. No other country has succeeded in reaching such a settlement with the Soviet Union despite years of endeavor; and it is safe to assume that in our own case the question will not progress beyond the stage of negotiation. This does not imply that the concessions set forth in Litvinov's letters are without meaning. On the contrary, they have already been politically valuable in promoting a favorable reception of the recognition agreement by the American public, for they provide evidence of the President's firmness in defending our rights and of a generous effort by the Soviet Union to concede our position.

The engagements we have discussed cover all the matters which have heretofore determined our recognition policy. But the Washington agreements go further and obtain from the Soviet Union commitments on two other questions that have recently led to attacks on Soviet policy—the right of religious liberty in Russia and the civil rights of foreign residents.

Litvinov's assurances regarding religious freedom were drawn from him by a letter from President Roosevelt, which emphatically stated our demand that American citizens in Russia be given complete liberty of conscience and religious worship including freedom to conduct "any kind of religious services and rites of a ceremonial nature"; to maintain their own churches "which they will be given the right and opportunity to lease, erect, or maintain in convenient situations"; "to collect from their co-religionists and to receive from abroad voluntary offerings for religious purposes"; "to be entitled without restriction to impart religious instruction to their children, or to have such instruction imparted by persons whom they may employ for such purposes"; and "to have their spiritual needs ministered to by clergymen, priests, rabbis or other ecclesiastical functionaries who are nationals of the United States of America, and that such clergymen, priests, rabbis, or other ecclesiastical functionaries will be protected from all disability or persecution and will not be denied entry into the territory of the Soviet Union because of their ecclesiastical status."

A definite undertaking on each of the points raised in the President's letter was given by Litvinov in his reply, in which, however, he seized the opportunity to rebuke the world for misunderstanding and misrepresenting Bolshevist religious policy. By merely quoting the laws of his country Litvinov was able to assure the President that with respect to all his demands, save one, the statutes of the Soviet Union guarantee precisely these rights, privileges and immunities to the nationals of all countries now resident in Russia. The exception is the right of "ecclesiastical functionaries" to enter the country, a point not covered by any existing Soviet law. This demand was met in a separate paragraph of Litvinov's letter, which contained the following statement: "The Government of the Union of Soviet Socialist Republics, while reserving to itself the right of refusing visits to Americans * * * on personal grounds, does not intend to base such refusals on the fact of such persons having an ecclesiastical status."

The question of the civil rights of foreigners living in Russia has been raised by the dramatic trial of German engineers some years ago on charges of espionage, and the equally dramatic proceedings in the Spring of 1933 when similar charges were heard against the British officials of the Metro-Vickers Company in Moscow. The latter caused a virtual rupture of Anglo-Soviet relations, and its memory is even now a major obstacle to the efforts of Downing Street to reestablish commercial dealings with Russia on a firm footing. Throughout the world, and in this country particularly, these events roused genuine fear for the safety of foreigners in the Soviet Union, and provided enemies of the Soviet régime with an opportunity to inflame public opinion against the "terroristic methods" of the Communist dictatorship. Apart from these general considerations, the fact that the Washington negotiations on recognition were stimulated primarily by our desire to expand our trade with Russia demanded an understanding that would guarantee the personal safety of our business representatives in that country.

The importance of this undertaking has been exaggerated in many accounts of the negotiations. Litvinov's statement was as follows: "The Soviet Government is prepared to include in a consular convention to be negotiated immediately following the establishment of relations between our two countries provisions in which nationals of the United St tes shall be granted rights with reference to protection which shall not be less favorable than those enjoyed in the Union of Soviet Socialist Republics by the nationals of the nation most favored in this respect." And to give point to the statement, Litvinov cited the existing treaty between the Soviet Union and Germany which makes two provisions for the protection of the civil rights of German citizens. The first is that the German Consul shall be notified promptly whenever a national of the country he represents is arrested in his district; the second, that "in places of detention of all kinds, requests made by consular representatives to visit nationals of their country under arrest, or to have them visited by their representatives, shall be granted without delay." This is all that is promised by the Soviet Union with regard to the civil rights of our nationals.

The additional safeguards mentioned in our press are not included in Litvinov's statement, but in President Roosevelt's letter of acknowledgment as a warning to the Soviet Union. The President said: "Let me add that American diplomatic and consular officials in the Soviet Union will be zealous in guarding the rights of American nationals, particularly the right to a fair and speedy public trial and the right to be represented by counsel of their choice." But these are not "rights" in the sense that they are legally binding upon the Soviet Union. The Soviet Government has not undertaken to make any change in its judicial procedure out of deference to American ideas, or to treat our nationals, except with regard to notice of arrest and access to the prisoner by consular officers, in any way different from the treatment of Russian citizens. We have, therefore, gained no greater legal security for Americans in Russia than was enjoyed by the Metro-Vickers officials when they were arrested last Spring. In this matter our relations with Russia are dependent, as they have been in the past, upon the eagerness of the Soviet Government for American good-will.

Probably neither President Roosevelt nor Commissar Litvinov felt that the agreement regarding civil rights could allay the misgivings of the American public. Litvinov, at any rate, was given an opportunity, through a question put to him by the President, to make a public statement on the meaning in Soviet law of "economic espionage," a term which has been much used in criminal cases involving foreigners: "The widespread opinion that the dissemination of economic information from the Union of Soviet Socialist Republics is allowed only in so far as this information has been published in newspapers is erroneous. The right to obtain economic information is limited in the Union, as in other countries, only in the case of business and production secrets, and in the case of employment of forbidden methods (bribery, theft, fraud, &c.) to obtain such information. * * * The Union of Soviet Socialist Republics has also no reason to complicate or hinder the critical examination of its economic organization. It naturally follows from this that every one has the right to talk about economic matters or to receive information about such matters in the Union in so far as the information for which he has asked, or which has been imparted to him, is not such as may not, on the basis of special regulations issued by responsible officials, or by the appropriate State enterprises, be made known to outsiders." If this is accepted as an official statement of the Soviet Government it will go far toward dispelling the doubts of many foreigners.

Diplomatic relations on the basis of these agreements and understandings were established without delay by the appointment of Ambassadors by the two countries. President Roosevelt's choice of William C. Bullitt as our first Ambassador to Russia, announced on Nov. 17, was very pleasing to the Soviet authorities. Mr. Bullitt, ever since his secret mission to Russia in 1919, when he was sent to confer with Lenin, has been an outspoken advocate of recognition. On April 21 he became special assistant to the Secretary of State and is known to have been active in the arrangements for Litvinov's visit and in the subsequent negotiations. The Soviet Union selected as its first Ambassador A. A. Troyanvsky, formerly its envoy to Japan and until now vice chairman of the State Planning Commission, a choice which was approved by our government on Nov. 19.

In accord with the change, our government found it necessary to terminate the status of certain officials of the Czarist and Kerensky régimes remaining in this country: Serge Ughet, who, since April 28, 1922, had been recognized at Washington as Russian financial attaché in charge of the old embassy and custodian of the Russian archives, and J. A. Conroy at Boston, Antoine Volkoff at Chicago and Nikolai Bogoyavlensky at Seattle, who had continued to serve as consuls by virtue of appointments made before the war. The State Department notified them that their official standing in this country had been brought to an end. Thus was broken the last remaining ties between the United States and the Russia of pre-revolutionary days.

The two governments are engaged now in planning their consular systems in respect of locality and personnel. Mr. Bullitt has already gone to Moscow, and the arrival of the first Soviet Ambassador to this country is expected shortly.

One question remains in the minds of the American people regarding the practical meaning of this "new deal"

in our foreign policy. What can be expected from it by way of economic benefits, and, particularly, expanded markets for our surplus products. Obviously, it is the part of business prudence not to guess at the answer to this question, and certainly not to base any detail of our domestic policy upon such a guess, but to wait and see. It would be wise, too, to forget the awe-inspiring estimates of hundreds of millions and even billions of dollars which figured in Litvinov's speeches to the London Economic Conference and in more recent statements of prominent American advocates of recognition. The truth is that our recognition of Russia will not directly expand our export trade at all. The essential situation remains unchanged, for the Soviet Union cannot buy more of our goods unless we either allow her to export to us a corresponding amount, or provide from our own resources, through an extension of credit, the means to pay for them.

Nevertheless, our recognition policy may have a profound indirect influence by facilitating the provision of credit by our government and our banks in favor of Soviet purchasing agencies. It is not to be expected, of course, that the Soviet Government will make heavy purchases in this country as an act of friendship even if we provide liberal credits to that end. Their objective is to make their country, as speedily as possible, independent of foreign supplies. In the meantime they will buy abroad only what is really needed to further their domestic program, and this only within a strict estimate of their ability to pay at the time of purchase or at the end of a credit period.

Soviet commercial representatives in this country followed the announcement of recognition with a statement that their government would consider it safe as a business proposition to assume short-term indebtedness to the extent of $100,000,000 for the purchase of American basic commodities and machine equipment. This would be an immense improvement over the past year, when our exports to Russia fell to $12,000,000. Moreover, many important American concerns have publicly expressed their confidence that the diplomatic settlement has clarified the problem of Soviet credit in respect of their own business affairs. As additional and more concrete evidence of the optimism of the business world, American shipping companies are expanding their Russian fleets in anticipation of increased exports, the Scantic Company having arranged to add seven more ships and the American Export Line twelve to the fleets now operating between New York and Russian ports.

The resumption of friendly relations between two of the world's most powerful nations after many years marked by distrust and bitterness is an event of high dramatic interest. Whether it also proves to be of permanent historical importance will depend upon how much the attitude of friendship assumed by the two governments comes to reflect the good-will of the two peoples. Much remains to be done before this can be brought to pass. Popular opinion in each country is still colored by the misrepresentations and part-truths which have passed for knowledge of the other during the years of controversy. Yet the new relationship has been formed under favorable auspices. In this country the popular response to the President's action has been, on the whole, one of cordial approval, while in Russia the people have greeted the outcome of Commissar Litvinov's negotiations at Washington with enthusiastic acclaim.

The Passing of an Afghan King

By ROBERT L. BAKER

KING MOHAMMED NADIR SHAH of Afghanistan fell before an assassin's bullets on Nov. 8, after occupying the throne for only four years. Crimes of this sort in Afghanistan can almost invariably be traced to a blood feud, and Nadir Shah's murder seems to have been no exception.

The assassin, one Abdul Khaliq, belonged to the household of Ghulam Nabi Khan, one of former King Amanullah's chief supporters, who was executed for conspiracy exactly a year before. At that time Abdul Khaliq and his father were convicted of participating in Ghulam's plot but were pardoned by Nadir. The act of vengeance was made comparatively easy by the King's scorn for a bodyguard, even though rumors had been current that an attempt would be made on his life. Abdul Khaliq was immediately seized and placed on trial. Nadir Shah's 19-year-old son, Mohammed Zahir Shah, at once succeeded to the throne. Both of Nadir's brothers, Premier Hashim Khan, and Shah Wali Khan, Afghan Minister to Paris, hastened to offer full allegiance to their nephew. Zahir Shah was also supported by the Moslem clergy.

The late King was a man of blood, ruthlessly putting down all resistance to his authority. Nevertheless, he brought greater peace to Afghanistan, both at home and abroad, than the country had known for a generation. His neutral policy toward Soviet Russia and British India earned for him the respect of both, so much so, in fact, that the Indian Government lent him unconditionally and without interest $1,000,000 in money, 10,000 rifles and 5,000,000 rounds of ammunition to aid him in the pacification of his realm. He also made a good beginning in the peaceful development of Afghanistan, though he was careful to avoid Amanullah's error of reforming the institutions and customs of the country too rapidly for the comfort of primitive Moslem sensibilities. During his brief reign, Nadir Shah considerably improved the main roads and extended communication between different parts of his wild country by telephone and telegraph. His plans included a railway from the Russian frontier across Afghanistan into India and a number of irrigation projects. In the cultural sphere he hoped to establish a national university and to organize a system of popular education along Western lines.

But Nadir's greatest contribution to the future of his country was the new Constitution which was promulgated at the beginning of 1932. That instrument provided for government through a bicameral Legislature, one house of which has elected representatives, and established guarantees for personal freedom and the rights of property. Such a political reform may mean much or little, depending on the will of the ruler. But the Constitution also provided for the abolition of slavery and compulsory elementary education, and these innovations leave no doubt that Nadir Shah's sincere bent was toward the Westernization of his kingdom.

The Government of India was especially grieved to lose so able and reliable a friend beyond the Khyber Pass, and fearing that Nadir's death would be followed by the usual struggle for the throne, closed the pass to outward traffic as a precautionary measure. Young King Zahir, however, weathered the crucial transition period without great difficulty. One pretender, Ghulam Dastgir, who had been in rebellion for nearly a year, surrendered with his companions on Nov. 24 and was pardoned.

More serious threats might have been offered by ex-King Amanullah, or his brother, ex-King Inayatullah, had either been in Afghanistan. Inayatullah was in Persia and in straitened circumstances. He is not supposed, moreover, to entertain any ambition to regain the throne. Quite the contrary is true of former King Amanullah, deposed in 1928, and since then an exile in Europe. He retains a strong following in certain districts of Afghanistan and his appearance in the country would undoubtedly be followed by civil war. During his reign, however, he was constantly at odds with the Indian Government, and Great Britain would undoubtedly frown on any attempt he might make to seize the throne.

The young King has avoided many difficulties by reappointing his father's Cabinet, headed by his uncle, Hashim Khan, as Premier. It was announced in Kabul that Zahir would follow his father's foreign policy and govern the country according to Moslem law. The latter promise is not without significance. Zahir is already under strong obligations to the Ulemas, or Moslem clergy, for their early support. And their influence will undoubtedly decide the King against any reforms affecting Moslem traditions or customs, at least for a number of years.

UNCERTAINTIES IN EGYPT.

A survey of the political situation in Egypt today reveals profound uncertainty on every side. Crises, both external and internal, loom ahead. Not for years have there been so many unknown and incalculable factors present to confuse the political wiseacres, and the Arab press is devoting itself with relish to speculation about what the future holds in store.

The case of ex-Premier Sidky Pasha illustrates this situation. Until a short time ago Sidky was supposed to be the strong man of Egypt. It was thought that he held the majority Shaab party, which he founded in 1930, in the hollow of his hand. Now it appears that Sidky's strength has been overrated and that, if there is any strong man in Egypt, it is King Fuad. Sidky, failing to receive unconditional support from the King, resigned last September. When a new Cabinet was appointed by Fuad, it included two members of Sidky's party who failed to ask the leader's permission to serve. They were, of course, expelled from the Shaab, with the result that a serious rift appeared. On Nov. 15 Sidky resigned as party leader, giving ill health as the reason. But it was undeniable that his party showed signs of getting out of hand. At a meeting on Nov. 8, however, the party committee indirectly refused to accept his resignation by postponing indefinitely a vote on the matter. Thus he remains leader, but his position has been seriously weakened.

Another matter of far-reaching significance is the dispute over the manner of payment of the Egyptian foreign debt. In January, 1933, the Mixed

Tribunal of Cairo ruled that service on the debt must be paid in gold, in accordance with the letter of the loan contracts. The Egyptian Government consider the appeal on Nov. 16. Being burden in view of the depreciation of its currency and immediately appealed the decision to the higher Mixed Tribunal at Alexandria. That court was to consider the appeal on Nov. 16. Being governed by the Organic Decree of 1904, it can hardly reverse the ruling of the lower court. The present Minister of Finance, Sabri Bey, has declared that Egypt can not and does not intend to pay more than sterling. Most of the bonds are owned by French nationals, and a French court has decided that payment should be made in gold. The British Government has aided Egypt in trying to negotiate some sort of compromise with the French that would avoid default, but without success.

British as well as Egyptian newspapers are wondering whether Egypt's seemingly inevitable defiance of the Mixed Tribunal will not lead logically to a denunciation of the whole capitulatory system. If that should happen, Egypt will at once be embroiled in a grave international crisis.

The internal political situation in Egypt seems ripe for drastic changes. No one expects that the present Cabinet will endure for long, as it is unable to count on organized support in Parliament. Sidky is ill, his Shaab party is torn by dissension and he is in disfavor at the Palace. There is a good chance that the Wafd, or Nationalist, party, led by Gharabli Pasha, which more nearly represents the views of the Egyptian people than any other group, may return to power. The rôle that King Fuad will play can only be the subject of conjecture, but he is far from being a figurehead. His control over policy, though indirect, has grown rapidly since Sikky became ill last year. The King's influence, in fact, may be the determining factor in future policy.

TRUCE IN PALESTINE.

Palestine is quiet again, but the fundamental causes of the recent troubles remain. Perhaps a truce is the best that can be expected in the circumstances. The Arab Executive called off the general strike on Nov. 4, canceled demonstrations that had been planned and apparently submitted to the Palestine Government. But both Arabs and Jews continue to protest bitterly to the High Commissioner over the question of Jewish immigration. In this recent dispute the Arabs won a considerable victory.

A delegation of Arab Mayors from the leading cities of Palestine interviewed Sir Arthur Wauchope on Nov. 13. Their spokesman, Raghed Bey Nashashibi, complained that the government of the mandate had not dealt equitably with the Arabs. He flatly contradicted the statements made by the Jewish Agency by declaring that there was extensive unemployment, both Arab and Jewish, in Palestine. He also declared that Jewish immigrants coming to the country as capitalists transferred the same £1,000 of required capital from one person to another. These capitalists, he further declared, spent their money unproductively and became a charge on the country since the Jewish Agency was not held responsible for this class of immigrants. Raghed summed up the Arab case by urging the establishment of representative self-government, the improvement of economic conditions and the prevention of immigration.

The High Commissioner replied that grievances could not be removed in a moment, and that the position of the fellaheen, though very bad, was better

than it was before the mandate. As to self-government, he was obliged to wait until the municipal government bill had proved successful before going further in that direction.

The High Commissioner aroused a storm of protest among the Jewish community in Palestine and abroad by announcing on the following day a number of measures that were designed to prevent the illegal entry or settlement of Jews. Fines, imprisonment and deportation were specified for tourists who overstayed their three months' visit. Visas were to be refused to holders of Nansen or other temporary passports and third and fourth class immigrants were to be admitted only through the ports of Haifa and Jaffa. Tourists were to be required to show return tickets to their homes and to deposit a $300 guarantee that they would leave before their visas expired. The funds of Jews coming to Palestine as capitalists were to be scrutinized more closely. Finally, a special staff was to be appointed to deal with illegal immigration.

Strong representations were at once made by the Jewish Agency and other organized Jewish groups, by a delegation of Jewish Mayors and by individuals, against this tightening of immigration restrictions. All stressed the dearth of labor, and especially Jewish labor, that seriously hampered work on construction projects. The Vice Mayor of Tel-Aviv revealed that building permits in his city alone totaled nearly $5,000,000, of which sum two-thirds would be spent in wages. There was a keen demand for labor, he said, and it was expected to last for several years. He added that the present restriction on the volume of labor endangered the industrial progress of his community. Other Jewish spokesmen pointed out that great numbers of Arabs from adjacent countries have been attracted by the unusual prosperity in Palestine. Isaac Benzvi, head of the National Council, asked the High Commissioner to regularize the status of tourists who had already established themselves.

Sir Arthur Wauchope was unmoved by these appeals, but expressed his intention to prevent illicit immigration, whether of Jews, Arabs or others. He declared that he could not allow the hardships to which Jews were exposed in other parts of the world to affect policy in Palestine. Immigration, he added, must be regulated solely in accordance with the absorptive capacity of the country.

The full coordination of the policies of the Palestine and British Governments was revealed at Geneva on Nov. 26, when it became known that the British Government had supported the creation of the League's Refuge Commission only after Palestine had been excluded from the commission's field of activity. This condition was secured at a private session of the League and was not discovered by James G. McDonald, the High Commissioner, until he arrived at Geneva.

It is obvious that more trouble is brewing. Arab nationalism has been greatly stimulated by recent events. New Arab organizations are being formed and the old ones are becoming more energetic. The Arab Executive designated Dec. 9, the anniversary of General Allenby's capture of Jerusalem, for the commemoration of the "Arab martyrs of Palestine." It has announced demonstrations against Jewish immigration in every town in the country for Jan. 17, the first day of the Feast of Bairam, although all demonstrations whatsoever have been banned by the Palestine Government.

The Russo-Japanese War Danger

By TYLER DENNETT
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NOT a few well-informed observers are confidently predicting that a second Russo-Japanese War is close at hand; some even believe that it is already scheduled by Japanese military and naval leaders for 1935. The arguments advanced to support this thesis, which other equally competent observers question, are well illustrated in the current budget of international news.

Most certain is the conclusion that the Soviet Union, if pressed too far by Japan in the Far East, will fight. This seems hardly open to doubt. The Soviet policy of broadcasting through the press the alleged Japanese documents relating to the Chinese Eastern Railway (See December CURRENT HISTORY, page 380), is open to only one interpretation, namely, that the Soviet Government is preparing, when necessary, to mobilize Russian public opinion in support of military measures in the Far East.

"We do not consider Manchukuo responsible for the aggressive activities in Manchuria," declared Vyachelov Molotov, president of the Russian Council of Commissars, in an address on Nov. 6 before a convocation in celebration of the sixteenth anniversary of the Bolshevist Revolution in Moscow. "We realize Japan's directing force. We are fully prepared for an unexpected attack." He added: "There will be complete destruction of the enemy and complete victory for the Red Army in case of an attack." The audience cheered, Joseph Stalin, seated on the platform, leading the applause. That there is at present an unusually large concentration — over 100,000 — of Soviet military forces along the Siberian border is not only charged in Tokyo, but likewise is common knowledge in Moscow. The Soviet Foreign Office on Nov. 9 made public a protest to Tokyo against the alleged "unprecedented and gross violation of Soviet frontiers." "I insist," the Russian Ambassador stated to the Tokyo Foreign Office, "that such action shall not be repeated in the future." While both foreign offices are profuse in their denials that their countries desire war, it is quite evident that if Japan wants a war with Russia, the wish can be gratified. It is also clear that the Soviet Union hopes to avoid war, and that Japan is not unanimous in the wish to bring it on immediately.

The second relevant factor in the Russo-Japanese situation is that relations between Japan and China appear to be steadily improving. While the war talk was at its height in early November, it was reported from North China that Japan was making a new effort to liquidate the Chinese ill-will of the last two and a half years. Colonel Shebayama, Japanese military attaché in Peiping, announced on Nov. 4 that the last remnant of the Japanese Kwantung army would be withdrawn "within a few days." The negotiations for the completion of a railway traffic agreement were also speeded up. While a large section of

officials in Nanking appears to be still opposed to any settlement with Japan, more influential elements are anxious for a working agreement to provide for the restoration of railway, postal and telegraph facilities between North China and Manchuria. The customs question is also troublesome, and it was reported on Nov. 15 that the Chinese had decided to establish customs houses at the Great Wall as well as to grant free entry to thirty-six classes of goods produced by the Chinese in Manchuria. The Japanese appear to be meeting the Chinese in a conciliatory spirit. Such reports are interpreted as indicating Japan's desire to disentangle herself in North China in order to be better able to prosecute an aggressive policy toward Russia further north.

Japan and Manchukuo now own or control about 5,000 miles of railways in Manchuria. Lieut. Gen. Kuniaki Koiso, Chief of Staff of the Japanese Army in Manchuria, has declared that this mileage will be increased eventually to 15,000. An extensive system of paved highways is also being projected. An Associated Press correspondent in Mukden has reported that these lines are being planned largely for their strategic and military value. Of more immediate significance is the report that the Japanese have abandoned in part their drive on bandits in Manchuria in order to concentrate their troops more thoroughly for defensive purposes.

Another consideration leading to the possible conclusion that war is approaching is the growing discontent among the Mongols and the emergence of a definite independence movement in Inner Mongolia. These Mongols are discontented with a political relation to Nanking which confers no benefit upon them and yet leaves them to bear the burdens of chronic Chinese misgovernment. They are also disturbed by the Chinese immigration which results in the exclusion of the Mongol nomads from land appropriated by the Chinese farmers. The Mongols are flirting with the Japanese who have shown special consideration to the Mongols in Western Manchuria. Nanking is reported as ready to concede autonomy to the Mongols, except as to foreign relations and border defense, but has not offered assurances as to the preservation to the nomads of land desired by the Chinese immigrants. Mongol leaders in Mongolia do not hesitate to hint that they may turn to Japan if the latter offers better terms.

It was reported as long ago as Oct. 29 that 170 Mongol princes assembled at Pailingmiaio had organized an autonomous government. The possible danger in this movement lies not in the military strength of the Mongols, which is inconsiderable, but in intrigue with Japan which might easily bring the Soviet Union into the situation and thereby face to face with Japan under conditions that would compel both nations to defend their interests.

While the re-establishment of diplomatic relations between the United States and the Soviet Union is interpreted as encouraging to the latter, this is more than offset by the contemplated withdrawal of the American fleet from the Pacific. The announcement on Nov. 3 of this step next Spring coincided almost exactly with the increase of difficulties between Japan and Russia. Japanese authorities seemed to interpret the change of American naval policy as meaning that the United States would not interfere between Japan and Russia.

Foreign Minister Hirota, according to a Tokyo dispatch of Nov. 29, is pre-

pared to initiate preliminary negotiations among the naval powers in preparation for the 1935 conference. In short, Japan, although steadfastly unwilling to sign with Russia the nonaggression pact which has been several times offered, is eager to reach an understanding with Great Britain and more especially with the United States. It so happened that this Japanese overture was immediately followed on Dec. 3 by Secretary Swanson's proposal that the United States proceed at once to start building up the American Navy to treaty strength in anticipation of the naval conference which is only a year and a half off. The Swanson proposal will doubtless be used in Japan to urge further public support for the Japanese naval program.

Still another reason advanced for expecting war between Russia and Japan is that the Japanese military leaders are already meeting more real opposition in Japan than at any time in the last two years. The Yokosuka naval court-martial imposed lenient sentences on the naval participants in the plot of May 15, 1932. Two naval officers got fifteen years, and four were let off with suspended sentences of from one to six years. The civilian who shot Premier Hamaguchi on Nov. 14, 1930, was sentenced to death; the military assassins of Premier Inukai were treated differently. The younger naval officers were jubilant; the Seiyukai party leaders were quoted by a news agency as declaring that they were "struck dumb" by the leniency of the naval court. Baron Reijiro Wakatsuki, former Premier, having ventured to defend the London Naval treaty, had to be rescued from assassins in front of the Ueno railway station, but the significance of the event lies not so much in the attack and rescue as in the fact that a Seiyukai leader has come out in open criticism of the dominant military party. Only a gesture by General Araki at the Cabinet meeting on Dec. 2, so it is reported, prevented a Cabinet crisis in Japan. In fixing the naval estimates at 487,000,000 yen as compared with 372,000,000 last year, the Cabinet was able to satisfy the navy only after the war office had yielded 10,000,000 yen for transfer to the naval estimates; and Finance Minister Takahashi consented to borrow half as much more. Admiral Osumi had demanded nearly twice as much. Of the total budget estimates of 2,106,000,000 yen, nearly 800,000,000 will have to be raised by loans. (The par value of the yen is 49.85 cents.)

Apparently some criticism of Japanese military expenditures is arising in Japan, and it may be that in time the military will have to achieve some new feat of arms in order to sustain their paramount influence. Those who expect war between Japan and Russia attach much importance to the situation.

On the other hand, it should be pointed out how very speculative are these considerations which are urged to indicate that war is approaching. There are many "ifs." Japan is preparing, and so is Russia, but that either desires war is not so clear. A chance spark might start a blaze, but there is at least no certainty as to the spark.

CORRECTION

There was ascribed to Foreign Minister Koki Hirota of Japan in CURRENT HISTORY for November, 1933, on page 254, a very incendiary statement relative to immigration, naval parity and the Japanese ratification of the London naval treaty which was, in fact, a statement by Ryohei Uchida, presi-

dent of the Kokuryukai (Black Dragon) Society. The Uchida declaration was made first in a pamphlet issued on Sept. 10, but it appeared in a news dispatch of Sept. 16, which also included extracts from a written statement by Foreign Minister Hirota. Through a regrettable inadvertence in the use of the clipping, Mr. Hirota was made to appear as having used language of a very undiplomatic character when, in fact, his prepared statement was conciliatory and unobjectionable. It may be added that, notwithstanding the excited character of the utterances of many public men in Japan in recent months, Mr. Hirota has uniformly displayed in his references to the American Government that courtesy which is the finest tradition of the Japanese Foreign Office.

CIVIL WAR IN CHINA

China now has on hand at least half a dozen wars—in Kiangsi, Szechwan, Sinkiang, Eastern Chahar, Kweichow and Fukien. The first two are conflicts between the Communists and the government. The others, apart from the major disturbance which has recently broken out in Fukien, appear to be merely conflicts between the "outs" and the "ins." Foreign Minister Lo Wen-kan returned from Sinkiang with reports of appalling misgovernment and cruel oppression by ambitious militarists. He intimated that unless the Nanking Government is prepared to restore good government the province may be lost to the Republic.

While General Chiang Kai-shek was doggedly pursuing his anti-Communist campaign in Southern Kiangsi and had created a blockade which forced salt up to the equivalent of $4, gold, a pound, the adjacent province of Fukien on Nov. 20, declared its independence of Nanking and raised another standard of rebellion. It is alleged to have the support of 40,000 troops of the famous Nineteenth Route Army. The movement is independent of Cantonese influence and more definitely directed against Nanking. The Central Political Council, meeting at Nanking on Nov. 21, decided to "take drastic measures," which may be interpreted to mean that Chiang Kai-shek has accepted the challenge. The rebels did not seize the custom house and postoffice, but did adopt a new flag and oust all Nanking officials. While somewhat "leftish" in tone the new government is not definitely Communist.

The Nanking Government, instead of using its meager navy to blockade Foochow and Amoy, ordered it to depart as fast as possible, fearing that it would join the rebellion, but the order was too late. The Southwest Kuomingtang (Nationalist) Executive Committee at Canton on Nov. 22 decided not to participate in the struggle and branded the Fukien movement as pro-Japanese. Tokyo immediately declared that it was opposed to the rebel movement in Fukien. Nanking's request for military aid from the Northern Provinces was met by intimations that Nanking was already badly in arrears in the payment of the soldiers. General Chiang Kai-shek decided on Nov. 28 to abandon the Kiangsi campaign and take command in Fukien. After the rebels took over the maritime customs at Foochow and Amoy, Nanking issued a characteristic Chinese ultimatum, threatening "utter annihilation" to the Nineteenth Route Army if it did not return to the government fold by Dec. 6. Reports were very conflicting as to whether the trouble in Fukien would become really serious or eventuate in merely another fiasco. In its initial stages the rebellion was far from promising as no other province had joined the movement.

CURRENT HISTORY

FEBRUARY 1934

Real Estate and Taxes

By GRAHAM ALDIS

[The writer of this article is a member of a Chicago real estate firm and active in various local and national organizations concerned with civic affairs and matters of taxation.]

OUR cities are having their troubles. Tax delinquencies have mounted to a point where in Chicago and Cleveland they cover nearly half the real estate of the city; school teachers, firemen, police go unpaid, sometimes for nearly a year; out of $18,000,000,000 of outstanding municipal obligations, at least $1,250,000,000, perhaps $2,000,000,000, have defaulted. New York, greatest of cities, is only at the last moment snatched from the brink of the fiscal abyss.

Largely because such difficulties are most manifest in the field of public finance it is a common assumption that bad and extravagant government, plus hard times, is to blame. Hence the concerted cry of taxpayers, business men, newspapers, chambers of commerce—"Reduce Taxes, Cut the Cost of Government." But government has been deflated, for example, in Chicago, from an impossible $270,000,000 to a conceivable $200,000,000, and in many other cities in similar proportion. Apart from minor economies, however, such results have been attained in two ways—first, by salary reductions, enforced furloughs and like devices; second, by practical suspension of local programs of public works.

The first of these expedients cannot survive a general increase in the cost of living. The adoption of the second very shortly leads to the discovery that in the absence of private construction programs practically all the building mechanics and allied trades of the city must remain a deadweight upon the relief roll. Whereupon the leading citizens and taxpayers promptly adjourn as the committee on local economy to reconvene in Washington as seekers after an allotment of Federal funds to complete the projects which they have just succeeded in forcing out of the local budget. It begins to be apparent that something is out of gear.

Students of land economics, assessors struggling to effect a levy which shall be equitable or at least collecti-

ble, real estate men and architects making private surveys, housing and planning commissions making public ones, between them are beginning to discover things about the entire urban economic structure, the whole system of land utilization and land valuation as it has developed since the turn of the century. Some of these factors will be summarized here, and from them will be seen to what extent it may prove necessary to revise not merely the financing of city government, but our entire conception of the urban economic structure as well.

The skyscraper, whether office building, hotel, apartment house or even garage, is, like the automobile, the product of a single generation (the first steel frame business structure was recently wrecked in Chicago after a life of some forty years). Its effect upon land values or, more accurately, the whole conception of land values, was terrific. Before its advent and multiplication, the peak of value was the most popular shopping district; a Marshall Field's, a Wanamake.'s, a Macy's is essentially the same thing as the crossroads general store. But the skyscraper made it possible, and profitable, too, to concentrate not merely the housewife when she went forth to shop, but the stenographer in the office and the entire family, in the multi-story kitchenette.

With these possibilities it soon became apparent that every owner of a vacant lot had at least a potential twenty-flat building either in blueprints under his roll-top desk or further on the way to realization. As these possibilities came to be understood, every zoning plan produced by experts was attacked as insufficiently liberal. Owners of downtown holdings opposed height restrictions; owners of apartment house frontage demanded a business classification, while the home owners, for whose especial protection the whole scheme was devised, clamored to be zoned for apartments. Finally the device of the "first mortgage gold bond," by exploiting the small investor's confidence in the security of urban real estate, reinforced by his war-time education in Liberty bonds of small denomination, made it possible and speculatively profitable actually to construct these intensive developments almost without number —apartments, hotels, garages, office buildings.

We are not concerned here with the resulting losses to the investor but with the effect upon the tax system and economic structure of the city. Some precise information is available on this point. The vacancy figures for office buildings, for instance, are closely kept. As of Oct. 1, 1933, these vacancies in forty-three of the largest cities totaled nearly 48,000,000 square feet, or almost 27 per cent of the total space available. Rather more than one office out of every four was vacant. And the capitalized value of this idle space amounted to some $500,000,000. Even at a rate comparable to that at which office space was absorbed during the heyday of prosperity (of which also careful records have been kept), this great desert area among our skyscrapers will not be filled for perhaps another decade. Precise figures for transient hotels are not available, but the surplus of space is generally considered to be substantially higher than among the office buildings—nearer to one-half than one-quarter. Nor do the genial if harassed hosts seem to expect the traveling public to abhor this great vacuum and rush in to fill it. On the contrary, they bewail the growing competition of tourist camps and over-night lodgings.

The skyscraper created a new vision of land values based on intensive de-

velopment. Rapid transit created a similar vision based on extensive development. Before the advent of the automobile, suburban development had to keep pretty close to the railway and trolley lines, but not after that—and the further out in the periphery, the broader the acres in between them.

If we turn from the heart of these cities to the outlying regions, the figures become still more striking. In and about Chicago the subdividers were not notoriously more active than elsewhere; yet they descended upon the surrounding agricultural prairie like a cloud of locusts and succeeded in laying out enough lots to accommodate any reasonable or probable growth in the local population until 1960 and beyond. It would thus be, on the average, some sixteen years before any particular lot might be put to use—either sold or built upon by the owner—and a fair allowance for discounting this waiting period and pyramiding the carrying charges during it would indicate that this great mass of vacant property had an actual present value of less than half that at which it had been assessed.

In the case of Niles Center, "the Town That Ballyhoo Built," an Insull headache so minor as almost to pass unnoticed, streets and utilities were laid out and largely built by special assessment to provide for a future population of 250,000, of which by 1930 it had attained 5,017. Of its 6,500 acres, more than 6,000 still stood undeveloped—a grassy moor.

The Illinois Housing Commission found that in a square mile on the northwest side of Chicago, "a fair sample of a moderately blighted district," the cost for 1930 of public services was nearly three times the taxes levied against all the real estate situated within that section, and more than five times the taxes actually collected thereon.

For many years the overexpansion of Los Angeles was a vaudeville joke. At last, however, heroic efforts to "Keep the White Spot White" became necessary. Bigger public improvements were inaugurated, real estate assessments further inflated, and the doctrine preached with determination that everything would "come back" very soon. In short, there was zealous local performance of the policies advocated nationally by Southern California's most noted citizen—ex-President Hoover. Of these efforts and their results the Los Angeles Bureau of Municipal Research has now taken stock. Its findings may be discounted to the extent that Los Angeles is an extreme case and that the bureau is primarily making a plea for the taxpayer. But the study is of great significance in that, besides presenting an overwhelming array of facts, it outlines, perhaps for the first time, a technique by which a city may survey itself to determine whether and to what extent its official appraisal of itself may exceed a true and reasonable valuation.

It is, for example, an axiom that population creates land values. Now the growth of population in Los Angeles during the Nineteen Twenties was phenomenal. But even more phenomenal was the city's growth in land values; in local estimation, as reflected by the city assessor (who held office throughout all this dazzling period), those values increased nearly twice as fast as did the population. By the end of the decade it had thus come to pass that the economic value, purchasing power, and so forth of each Angelino was reckoned locally

in terms of land value to be more than twice what he would be worth had he been so ill advised as to have settled in any other of California's fair cities. Moreover, by the magic of his migration he justified in Los Angeles a per capita land value of about half as much again as would have been his if he had remained stodgily in any one of the twenty-nine other principal American cities. One need hardly be surprised at the urge to settle in a spot where a man's value bulks so large in local estimation.

Another definite criterion is the ratio of improved to vacant property. The first should pay its way out of earnings, although we have touched already upon the devastating vacancies in certain types of improved property; the second must be entirely "carried," its taxes and other expenses paid out of pocket by the owner. More than twenty American cities showed that the land within their boundaries had been improved to a point where the values of all the buildings equaled that of all the land, apparently a stable and normal proportion. But Los Angeles was found to contain such vast expanses of vacant property that the total value of its buildings just exceeded half the total value of its land.

Again, just as in Niles Center we found 5,017 people living in a town built—and bonded—for 250,000, so in Los Angeles we find provision on the same gargantuan scale for retail business: 9,664 blocks have been zoned for commercial usage and assessed accordingly, although this would amply meet the needs of 14,000,000 people. Gigantic as we have seen the economic man to become when he reaches Southern California, this does seem superfluous.

While the land areas needed for industrial use and for residential purposes in proportion to population are bound to vary greatly in accordance with the type of city, its economic character, the type of housing favored and many other factors, the ratio to population of frontage required for commercial use is a constant one, fairly well determined by zoning specialists. They, and any practicing real estate broker, can show that not merely in Los Angeles but in practically every city (except residential suburbs where the home-owning element controls) the provision of business lots and frontage far exceeds the need.

From Los Angeles to Boston and New England generally is a long jump, geographically and psychologically. The speculative element in land promotion is far less influential. The towns of New England are compact, well built up. Yet curiously enough in these older communities exactly the same result, official overappraisement of land, has developed from opposite causes. Old areas, old buildings have become obsolescent through shifts in business districts or in more extreme and tragic cases through the removal of industries from the town. Yet the assessor, from routine, has continued to carry the old higher values on his rolls. Sometimes he has been rudely awakened, as in Fall River, where an early financial default brought about a general overhaul of local financial affairs under the auspices of the Commonwealth of Massachusetts, including an enforced reduction in assessed valuations from a peak for 1926 of $214,000,000 to a present $112,000,000. Fall River, indeed, represents an extreme case because of the Southern migration of the New England textile industries. But there is little difference between the obsolescence or abandonment of properties once productive and the creation of improvements for which no use exists.

Elsewhere the revelation is more gradual, as in Boston, where the administration, in advertising a new bond issue, proudly points to a remarkably low percentage of delinquent levies, but without mentioning, what every real estate man there is discussing, the number of the city assessor's valuations carried for reduction to the Massachusetts Board of Tax Appeals (a prerequisite to which is payment in full, pending adjudication) and the practical unanimity with which this board grants substantial reductions in such cases as it has already heard.

The interrelationship of public improvements, shifts and blighted districts is becoming evident. Speaking broadly, widened through streets, necessary as traffic arteries, have proved failures in the expected enhancement of immediate real estate values. The motorist hastens by; the pedestrian shopper declines to cross the broadened dangerous expanse; any former residential amenities are destroyed, and too often the old structures or their remnants fall into the poorest of uses or simply serve as supports for billboards. The speculative tide has surged, however, and, though it has receded, has left its mark upon the assessment rolls.

In Chicago was recently completed the Merchandise Mart, an enormous structure designed to house all the wholesale and jobbing interests in the textile lines. Its erection immediately and jubilantly added a $17,000,000 property to the tax rolls. Within a few years, however, it had extracted so many tenants from the old "wholesale district," an area already on the decline, that the assessor felt compelled to make a special reduction in the valuation of all the properties therein, the aggregate of which is not far from the additional valuation of this much-heralded "improvement." So conspicuous and directly related an example of cause and effect occurs but rarely. Yet, if a small new building sucks but a dozen tenants, instead of several hundred, out of others, the net result is the same. There is no increase in income to pay taxes and no economic basis for an increase in the grand total of the assessment roll.

The facts cited are drawn mainly from a few cities. Fundamental values may be sounder in other places, for example, where the single family dwelling still predominates and the speculative effect of apartment building is not so great, or where the compact configuration of the city checks excessive subdivision. In the main, however, these same tendencies appear to a considerable degree everywhere.

As Walter R. Kuehnle, chief of the real estate division of the Assessor's office of Cook County (Chicago), says: "A very small percentage of the urban land in the United States is improved with up-to-date buildings. The balance, be it vacant or improved with obsolete buildings, is based upon the anticipation of a higher and better use than that now employed, despite the fact that all such land cannot possibly come into such use at any reasonable future date. Business land in the centre of our cities has a value based upon the assumption that it will all be developed with skyscrapers of the maximum height permitted by the city zoning ordinances. Land on the 'gold coast' is valued on the basis of being completely built up with twenty-story de luxe apartments. Land on the outlying business streets is ascribed a value on the theory of continued expansion of retail stores paying high rents. On what basis of fact have we the right to make such assumptions

and to use them as a foundation for our important financial and tax structure? *The vacant urban land in the* United States was said to comprise one-fifth of the entire national wealth in 1928. This means that taxes and credit lean heavily on land values. If these values are economically unsound and do not earn their way, the tax and credit structure for which they form the foundation must inevitably collapse. And it has. Banks have defaulted. * * * And those cities which have as yet not reached this stage had better not congratulate themselves too soon. They may be on the way."

The policies which may be adopted to deal with the fundamental situation divide themselves into two main lines—first, those concerned with land utilization; second, those concerned with local public finance.

We have zoned our cities, as we have seen, in anticipation of more intensive use. Though that anticipation cannot be realized for some time, its very possibility is a deterrent to the realization of a more moderate use. If a lot is zoned for apartments, the owner is less likely to build or repair a single family residence, even if that is all that he can do with it at present. If in the downtown district twenty-story structures are permitted and liberally sprinkled about, it is touch-and-go whether the owner replaces the boilers, elevators and lobby, and furbishes up his eight-story relic or wrecks it in favor of an open-air parking lot. A general zoning revision based upon reasonable but no longer fantastic provisions for future more intensive uses may dash the owner's dreams. But it will also afford him the sense of security and economic justification for undertaking a modest improvement. A bungalow on the land is worth a two-flat on the blue-print.

In considering this aspect of the *problem, the opinions* of the advocates of mass housing are significant. It is notorious that both President Hoover's Reconstruction Finance Corporation and the present Federal Emergency Administration for Public Works have found it hard to discover many such projects which appear suitable to finance. "The biggest barrier is land cost." The housing division has announced a limit of $4 per square foot; otherwise the rentals will be too high. Unfortunately, land in the "blighted districts," which surround the centre of many a large city, is held at a higher figure, mainly because of its zoning classification. The conclusion is obvious.

Those whose properties are thus to be rezoned into a lower category will naturally protest, quite probably with the subservient sympathy of their ward politicians. Such a plan is bound to involve discrimination and deprivation of vested, although unexercised, rights. Several expedients, however, are available which, if skillfully applied, will abate any such injustices. First, reclassification of any district back to the former more intensive use might be permitted (with the consent of a majority of the holdings affected), if it could be shown that projects aggregating a given value were actually financed and ready to be carried out. In other words, classification on a basis of genuine instead of fictitious utility. More effectual still would be the intelligent cooperation of the assessor in taking into consideration, as some assessors already do, the use for which a property was zoned. Owners standing out for the right to construct two-flats would have to pay on a higher land value than their neighbors in the next block who remained content with their bungalows.

Confronted with such a choice, the owners themselves might even be left to make their own decisions. Since these would have to be on a basis not of individual but of block or district choice, it can be imagined that such a policy would promote both neighborliness and economic understanding, two qualities conspicuously lacking in our great cities.

It was evidence such as this which impelled the assessors in Los Angeles and Chicago to reduce their current valuations by 22 per cent and 26.5 per cent, respectively, below the previous peaks. These constitute probably as great reductions as any large cities have effected. The Chicago reduction is just about proportionate to the reduction already noted in this city's public budget. In other words, the best that has been accomplished so far is to arrange that the cost of government shall not press harder upon a more reasonable valuation than it formerly did upon an exaggerated one.

More significant is the Chicago Assessor's announcement of Oct. 11, 1933, that he was making a further general reduction in real estate valuations of 25 per cent. On top of his previous reduction, this indicates a total deflation in real estate values of 45 per cent, leaving them at only a little over half their 1928 peak. Whatever may be Chicago's much-discussed vagaries, its real estate speculation does not appear more exaggerated than that of many other cities. This reduction of 45 per cent is very close to that in the market value of all the issues of domestic and foreign bonds of over $10,000,000 apiece floated during the peak. Yet real estate, like common stocks, is an "equity" and in its fluctuations in value might reasonably be expected to follow common stocks far more than senior obligations. Needless to say, the decline in stock values has infinitely exceeded 50 per cent.

There remains to be considered whether an improvement in conditions and that magnificent panacea of the past, "the growth of the country," will restore the relative position of real estate. First, as the Committee on Social Trends has pointed out, the rate of our population increase is slackening and soon may become stationary. An occasional subdivider may roar that this is not so, but such are the vital statistics. Second, there is the trend of industrial development from the larger cities to smaller communities, with lower taxes and wages and fewer "labor troubles." Moreover, the demand for the product of real estate is not particularly what the economists call "elastic." Even a boom would not begin to absorb the excess of offices, apartments, stores. This excess will force competition, which will keep down rents and with them net earnings. Any concerted price-control scheme, even if sanctioned, would be extremely difficult to apply to real estate because of the infinite number of those offering accommodations and the infinite variations in their product.

As to the problem of financing local government out of urban earnings instead of expectations, greater flexibility and authority will have to be permitted, and greater skill and judgment required of the assessor. If he undertaxes, the city loses. If he overtaxes, property becomes delinquent and forfeit, thereby throwing a greater burden upon the narrowed base of that remaining upon the tax rolls. Unfortunately, the multitude of properties to be appraised as compared with his resources compels him, if he is honest, conscientious and scientific, to get his

results mainly through the application of certain formulae, any deviation from which leads to a suspicion of discrimination or fraud. To fulfill his responsibilities, the local assessor, an official heretofore of minor consequence, often selected to "balance the ticket," will take on an importance second only to the Mayor's. He must advance beyond an ability to add up a series of guesses at what speculators may imagine the values of the different properties in the city may be; he must become an economic expert, competent to estimate and apportion the productive value and the taxpaying ability of the city as a whole. And his estimate must govern taxpayers and taxspenders alike. He is likely to become an economic court of last resort.

When the assessor has made the necessary readjustments, his real estate roll, even assuming better collections, will in all likelihood still yield far less than is required to run the city. Where will the balance come from? Some from liquor, although there are sound social and fiscal objections to overtaxing it, and the Federal and State Treasuries are both likely to exert a prior lien. Some can be obtained from better administration than generally prevails of licenses and of assessments against tangible personal property, such as machinery and stocks of goods. But, even with economy, all that is not likely to suffice, particularly if local public works are still to be carried on and interest paid on the emergency advances made by Federal authorities. When it comes to imposing taxes on income, on intangibles, on franchises, on corporations, on sales, the city is not the unit. Capital withdraws to a friendlier haven; people trade elsewhere. Economists have long recognized this, and in September, 1933, Tammany and Samuel Untermyer and most of the country discovered that the economists were right when the New York Stock Exchange forced the city to rescind a transaction tax by threatening to pack up and move over to the Jersey shore and jurisdiction. Even the State meets certain competition and evasion in the enforcement of sales, income and security taxes, although, as more and more of the forty-eight States are forced to such expedients, these differentials will disappear. We may expect, then, the higher political units either to take over certain functions, particularly social expenditures and education, or act as a tax collection and distributing agency for the cities.

In any event, urban economics and politics will become increasingly complex and demand more skillful management than ever before. Real estate men will have to become analysts instead of optimists. City planners will have to ponder the economic effects of their projects as well as their conformity, on the one hand, to the precedents of Baron Haussmann and, on the other, to the blind urge for "improvements." Bankers will have to intervene in their cities' financial tangles somewhat earlier than in response to the frenzied appeals at the eleventh hour; will have to formulate better standards for the measurement of their cities' credit than a favorable legal opinion and an exercise in long division, with "bonded debt" and "assessed valuation" as the factors. And, finally, business men generally, besides grudging $50 to the local bureau of municipal research, will have to tackle these problems themselves even if it keeps them in committee later than 2 o'clock. Our cities have some real problems, not the least of which is the tie-up between real estate and taxes.

The Battle for an Honest Dollar

By BERNHARD OSTROLENK

[Dr. Ostrolenk has been a frequent contributor of articles on economic and financial questions to this magazine.]

THE struggle over monetary policy which has been in progress for the last ten months is at bottom a conflict between two sets of interests and ideas.

In the first group we find what are called the "interests," the forces of entrenched wealth. They include the holders of $40,000,000,000 of riskless bonds, who can now get more for their interest coupons than at any time since 1914. Even the lower interest bonds have higher purchasing power. This group naturally resists an upward change in the price level, and urges the same course on the laborer whose real wages may be cut in the process and on the white-collar worker whose savings and life insurance policy may depreciate in value. With this group are associated a good many "hard money" economists who honestly fear what they term "inflation."

The second group, including President Roosevelt, brands the deflationary process of the last four years as a form of robbery of the debtors who are compelled to repay in the form of goods more than they undertook to pay originally. They recognize certain injustices in the restoration of a higher price level, but argue that 90 per cent of the people are more concerned about the restoration of industrial activity which will create employment and about the security of their incomes than about a few hundred dollars in savings or the few thousand dollars of insurance. Savings and insurance, the bitter experience of the depression has taught them, disappear rapidly when they are out of work. Then there are those who approve the aim but doubt the efficacy of the method.

Two influences, difficult as yet to appraise, have probably had much weight in guiding administration policy. First, there are two professors at Cornell University, George F. Warren and Frank A. Pearson, who have for years been preaching the gospel of a managed currency and have indoctrinated with their ideas thousands of students who have gone out as farm leaders. Among them is Henry Morgenthau Jr., the new Secretary of the Treasury and a close friend of the President. The President himself before and while he was Governor of New York no doubt came under the influence of those two professors. The Farm Bureau Federation, the strongest and most orthodox of all farm organizations, has for many years announced itself unqualifiedly in favor of the Warren and Pearson theory. Second, there sprang into existence early in March an organization which gave itself the imposing title of "Committee for the Nation." It is headed by bankers, industrialists, exporters and others, and its program, as based on Professor Warren's studies, has had a way of gradually unfolding itself as administration policies during the Summer and Winter of 1933. There is more than a suspicion of a connection between the Warren and Pearson commodity dollar, the pro-

gram of the Committee for the Nation and the policy of the administration.

What are these theories and how were they embodied in the administration program? Warren and Pearson are the spokesmen and statisticians for a group of economists who believe that normal industrial activity can be maintained only when the price level is adjusted to the debt structure of the country. When the debt rises extraordinarily high or the price level falls, and there is a gap between the two, one of two things must happen: we must have either a write-down of the debt structure or an increase in the price level.

The orthodox method of attack is to permit the write-down of the capital structure until the lowered price level can support it. This, in fact, was the Hoover policy. It led to bankruptcies, unemployment, distress wages, and was headed for incalculable disaster. Actually, however, the Hoover administration did not permit the process to reach its bitter conclusion. The RFC was organized in January, 1932, to help certain banks, railroads and insurance companies over the deflation period. The policy, in spite of its accompanying disasters, had, and has, the support of those who note that the reverse policy, that of attempting to raise commodity prices, has on frequent occasions led to wild inflation.

President Roosevelt has cast his lot with those who believe that deflation is an unjust form of economic adjustment. He wants to re-establish a price level that will, as nearly as possible, repair the injustice of the deflation and then keep the price level constant. This is what he means by a dollar that will not change its "purchasing and debt-paying power."

There is a distinction between keeping a constant price level and maintaining the price of any one commodity. When hog prices decline it may be because of supply and demand factors, but when all prices similarly decline, it means that an influence other than that of supply and demand is affecting the price level. This the President, in common with a certain group of economists, believes to be monetary. By changing the gold content of the dollar he hopes to raise, and ultimately stabilize, the price level. It is not proposed to abrogate the regulatory effect of prices on supply and demand, but that cotton or hogs or shoes will fluctuate at a stable price level rather than with a rising or falling level.

Warren and Pearson, in their book *Prices*, argue that the price level is closely associated with the gold content of the monetary unit. The United Kingdom went off the gold standard, depreciated sterling on foreign exchanges and thereby stabilized its commodity price level and increased industrial activity. The same thing happened in Sweden, Japan and Australia. When Austria, after the World War, depreciated her currency, the result was an increase in domestic prices and a stabilization of industrial activity. Prosperity came to France after 1924 and carried the French people all through the period during which the world was suffering from a major depression, because the depreciation of the franc stabilized prices and increased industrial activity. In brief, President Roosevelt's action in deliberately depreciating the dollar on foreign exchange, far from being an experiment, is orthodox in the sense that it is a tried and tested program which has invariably succeeded in bringing about stable or higher prices and the resumption of business activity. It has brought about in no case violent inflation and has been

always under the control of the government.

The policy of dollar depreciation on foreign exchanges is to be sharply distinguished from a fiat money scheme, a greenback or printing press policy. The first, intended to raise and stabilize prices, has uniformly had the intended results; the other has uniformly been disastrous. The President has not used the extensive powers vested in him by the Thomas amendment to print money. He has followed orthodox methods in balancing the general budget, in refinancing the government debt and in his new financing, as witness the success of government issues. In brief, the issue is not between fiat money and sound money, but the establishment of an honest dollar as against a dollar that wildly fluctuates in value and alternately subjects creditors or debtors to grave injustices. Again, those that agree with this as a desirable objective question the possibility of its attainment. Here time alone can provide the answer.

The present monetary battle opened on the day of President Roosevelt's inauguration, March 4, 1933, when all banks in the United States had closed and when important financial institutions the world over had been forced to close in sympathy with the suspension of financial activity here. To gain a breathing spell the President, after declaring a four-day national bank holiday, resorted to a forgotten wartime statute, fortunately not repealed, which authorized him "to investigate, regulate or prohibit any transactions in foreign exchange, and the hoarding, melting or earmarking of gold or silver coin, or bullion or currency." Acting under this statute, he put an embargo on gold exports and withdrawals. Called into session four days after the inauguration, Congress in a single day passed an emergency banking and currency act which gave the President extraordinary powers to deal with the crisis, and the same evening he issued a proclamation indefinitely extending the banking holiday.

The new act provided that during the emergency "any notes, drafts, bills of exchange or bankers' acceptances" might be deposited by the Federal Reserve Banks with the Secretary of the Treasury and Reserve Bank notes issued therefor to 90 per cent of the "estimated value of the corporate security." The provisions defining eligible paper were widened. For direct obligations of the government, new circulating notes could be issued dollar for dollar on the face value of the government securities. The orthodox Carter Glass, while giving his unqualified approval to this clause, exclaimed in anguish: "It broadens in a degree that is almost shocking to me the currency and credit facilities of the Federal Reserve System."

With this act began the currency policy which has since been the storm centre of discussion. Previously the Federal Reserve note issue had been limited to a 40 per cent gold base and 60 per cent commercial paper. Now Federal Reserve notes could be issued on 90 per cent commercial paper, more broadly defined, and on 100 per cent of United States Government obligations. The act permitted the RFC to subscribe for preferred stock of national banks, State banks or trust companies "in need of funds for capital purposes" and provided that "the amount of notes, bonds, debentures and other such obligations which the Reconstruction Finance Corporation is authorized and empowered to issue" was thereby increased by the amount sufficient to carry out this section. In brief, the sky was the limit.

On March 13 the banks began to open in a country that could not exchange its currency for gold and that was not permitted to export gold and in which the keeping of gold in excess of $100 had suddenly become a crime. Paper currency was now on an inconvertible basis, though there was still debate on the question whether the United States was on the gold standard. Exports of gold were permitted under licenses, and as late as April 18 a shipment of $4,000,000 of gold to France took place and an additional license to ship $3,000,000 more on April 21 was granted. But on April 19 came the order from the President which definitely took us off the gold standard by prohibiting "the earmarking for foreign account and the export of gold." Repeating the anti-hoarding order, it also authorized the Secretary of the Treasury "to investigate, regulate or prohibit transactions in foreign exchange."

Thus there came to pass what only a few months earlier would have been thought incredible. The United States had definitely abandoned the gold standard to which it had adhered persistently and consistently for fifty-four years since the resumption of specie payments on Jan. 1, 1879. The action created no atmosphere of gloom. On the contrary, it met with widespread approval and with unmistakable buoyancy in the stock and commodity exchanges. A spectacular advance in prices had as its parallel only the frantic speculation of 1928 and 1929, with a volume of trading that fluctuated between 5,000,000 and 7,000,000 shares during the next two days. Approval came from Wall Street and Main Street. J. Pierpont Morgan "welcomed" the action of the President and significantly said that "it had become evident that the effort to maintain the exchange value of the dollar at a premium as against depreciated foreign currencies was having a deflationary effect upon already severely deflated American prices, wages and employment. It seems to me clear that the way out of the depression is to combat and overcome the deflationary forces."

The ground was now cleared for the next act in the drama of our monetary policy. The country suddenly became aware that the administration was deliberately pursuing a policy of increasing commodity prices by decreasing the gold content of the dollar. Hitherto, the dollar on foreign exchanges had remained reasonably strong. In terms of the dollar, the franc sold at 4 cents, and the pound at about $3.40, but now the dollar suddenly began to fall and gyrate. On April 20, the day after the President's announcement, sterling rose to $3.90 and the franc to 4.4 cents and, after that, the rise was continuous until in the middle of June, when sterling went to $4.80 and the franc to 5.8 cents. This was equivalent to a decline of the dollar in foreign currencies since April 19 of 41 per cent.

The deliberate devaluation of the dollar on foreign exchanges aroused a storm. *The Commercial and Financial Chronicle*, the most important spokesman for Wall Street interests, indignantly declared that the depreciation of the dollar "involves moral and ethical considerations that strike at the very foundation of our government. The matter concerns the integrity and stability of the country's unit of value." President Roosevelt was solemnly reminded that he swore "to protect and defend the Constitution, and the gold content of the dollar could have been said to have been an integral part of the Constitution in always having been held sacred and free from tampering or debasement."

Senator Glass mourned: "I wrote with my own hand that provision of the national Democratic platform which declared for a sound currency to be preserved at all hazards."

President Roosevelt, speaking over the radio on May 7, electrified the country by definitely reiterating his monetary creed. "The administration," he said, "has the definite objective of raising commodity prices to such an extent that those who have borrowed money will, on the average, be able to repay that money in the same kind of dollar which they borrowed. That is why powers are being given to the administration to provide if necessary for an enlargement of credit in order to correct the existing wrong. These powers will be used when, as, and if it may be necessary to accomplish the purpose."

These "powers," embodied in the Thomas amendment, which was pushed through Congress in the midst of a barrage of criticism and attack, briefly were: (1) Authorization to the President to arrange with the Federal Reserve Banks and Board for the banks to purchase in the open market up to $3,000,000,000 worth of government obligations; (2) if the President was unable to arrange this operation, or if it was not adequate to meet the situation, the President might (a) direct the issuance of United States notes up to $3,000,000,000; (b) reduce the gold content of the dollar by 50 per cent; (c) provide for the unlimited free coinage of silver at a fixed ratio with the gold dollar. In addition, the President was authorized to accept silver up to $200,000,000 in the payment of war debts during the following six months, valuing the silver at 50 cents an ounce, and using it as a basis for the issuance of silver certificates.

The Thomas amendment loosed a flood of bitter opposition from spokesmen of banking institutions and economists of the conservative school. The more liberal financial and economic writers indulged in explanation and analysis of its probable significance. Did it necessarily mean ruinous inflation? What, if any, of the powers given to the President would he use? Could inflation be controlled? In some cases the powers inherent in the Thomas amendment were justified as being weapons which the President must have in order to raise effectively our price level. In the Senate a bitter debate culminated in an eloquent denunciation of the proposed amendment by Senator Glass. On the other hand, Senator Pittman sweepingly announced in a radio broadcast that the administration inflation program would "benefit every one" and asserted that "inflation is the only method that will accomplish the restoration of prosperity." In contrast with the anxiety of economists and financial experts, the man in the street remained cheerfully confident that President Roosevelt would make wise use of the unprecedented powers which had been granted him. On May 12 the President signed the Emergency Agricultural Act, including the Thomas amendment, which thereupon became law.

Meanwhile the "gold clause" question had been settled on May 1 when the Treasury refused licenses for the export of gold to meet maturing government obligations or interest upon United States securities held abroad on the ground that "such exports would not be in the public interest," despite the fact that most of the issues bore the familiar clause "principal and interest payable in United States gold coin of the present standard of weight and fineness." The

urban press was scathing in its disapproval of this step. *The Commercial and Financial Chronicle* characterized it as being "an act of repudiation and a violation of good faith." In London the press characterized it as "a calculated breach of contract" and "an outrageous default."

While these monetary developments were taking place, informal conversations were in full swing between President Roosevelt and special delegates from important countries preliminary to the World Economic Conference to be held in London in June. Early in April, President Roosevelt had invited eleven major countries to send representatives to Washington to discuss informally a variety of problems peculiar to the countries represented, and especially trade agreements and the possibility of currency stabilization. It was President Roosevelt's thought that, if a better understanding of the views of various nations could be achieved before the World Economic Conference, its chances of success would be improved.

But hardly had the conference begun work when the currency stabilization negotiations ran into trouble. At the meetings at the Bank of England, attended by financial experts from Washington, Paris and London who were striving to reach an agreement, it soon became apparent that the three nations which had expected to lead the way had hopelessly divergent domestic monetary policies and irreconcilable views as to the point at which stabilization should be made. Fruitless negotiations between the gold-bloc countries, headed by France and Holland, and the sterling and dollar countries—Great Britain and the United States—muddled along until July 3, when the President brought about the end of the conference with a message in which he said: "Let me be frank in saying that the United States seeks the kind of dollar which a generation hence will have the same purchasing power and debt-paying power as the dollar we hope to attain in the near future. That objective means more to the good of other nations than a fixed ratio for a month or two in terms of the pound or franc."

Future historians, no doubt, will disentangle the underlying factors that caused the demise of the conference. In the light of the President's speeches and messages, there is no doubt that he had in mind, from the beginning, a program to raise commodity prices in the United States by means of dollar depreciation. On the other hand, visiting officials to the United States and the American delegation to the World Economic Conference were both under the impression that the President favored stabilization. Possibly there was a period of hesitation which, by some process or event not known at this time, ended in his returning to his original plan. Whatever the facts, it is generally agreed that it would have been a calamity had the dollar been stabilized at the level then existing, for the pound was selling at about $4.50, the rate later suggested unofficially by British spokesmen as that at which they were willing to link the pound and the dollar.

A sharp increase in American business activity, lasting through August, had taken place in consequence of a general expectation of higher prices promised by administration policies. General preoccupation with the drawing up of codes under NRA tended for a time to relegate to the background the sharp differences that were developing over the President's monetary policy. But during Sep-

tember, business activity began to decline and the commodity price level began to fall. This was due to the over-expansion that had taken place in many industries in anticipation of higher prices, partly because of monetary action and partly because of higher costs under NRA.

Monetary policy now became once more the outstanding issue before the country and has so remained to the present moment. On the one hand, the hard-money advocates declared that the recession in business activity was a consequence of the uncertainty that prevented the making of long-term contracts, that capital was fleeing the country, and that financial demoralization was going on apace. On the other hand, inflationists again were becoming noisy. Delegates appointed by the Governors of a group of Southern States petitioned the President to circulate $400,000,000 of United States notes "not based on interest-bearing bonds" and "to immediately establish a minimum price for cotton at 20 cents."

On the whole, it seemed for the time that advocates of hard money were gaining ground. Faith in the dollar and in the solvency of the government was handsomely expressed by the overwhelming success which attended the offering on Oct. 16 of $500,000,000 ten to twelve year Treasury bonds—oversubscribed four times. This was the first bond issue since the ill-fated Treasury offering in the Fall of 1931.

While jubilation over the success of the offering was still audible, the President announced in one of his now famous Sunday radio talks, on Oct. 22, that it was "the definite policy of the government" to "restore commodity price levels." He continued: "Some people are putting the cart before the horse; they want permanent revaluation of the dollar first. It is the government's policy to restore the price level first. * * * When we have restored the price level, we shall seek to establish and maintain a dollar which will not change its purchasing and debt-paying power during the succeeding generation." As a means to this end, the President now announced a new policy authorizing the RFC to buy gold "at prices to be determined from time to time after consultation with the Secretary of the Treasury and the President. Whenever necessary to the end in view we shall also buy or sell gold in the world market. * * * We are thus continuing to move toward a managed currency."

The din and tumult rose. Three days after the President's announcement, the RFC fixed the price of gold at $31.36, or 27 cents above the world market price as reported by London and contrasting with the legal gold price of $20.67, equivalent to a gold value of the dollar of about 66 cents. The franc and pound sterling promptly rose. With intermissions, the RFC continued to raise the buying price of gold in foreign countries almost daily, until late in December it stood at $34.06, sending the theoretical gold content of the dollar down to 64 cents. The pound now touched $5.50 and the franc went to a high of 6.7 cents.

The hard-money advocates now launched a vigorous campaign for the immediate stabilization of the dollar. Business associations, college professors, those who knew and those who did not know, adopted resolutions endorsing or condemning the administration policy. The President smilingly and calmly replied by dubbing those opposed to him "monetary doubting Thomases and mules who can always be depended upon to obstruct the path of progress in any great reform movement designed to benefit mankind."

On Nov. 16 came the announcement of the resignation of Dr. O. M. W. Sprague, the Harvard professor who had been called to the Treasury as special adviser. He sharply dissented from the policy of depreciating the dollar through gold purchases and declared that "bonds, including government bonds, are an unsatisfactory investment at this time, when a government is determined to depreciate its currency." The effect on the bond market was disastrous. Discussion, already at fever heat, was further fanned into flame. Ex-Governor Alfred E. Smith announced himself for "gold dollars as against boloney dollars." An organization known as the Crusaders, which arranged a meeting in Carnegie Hall, New York, used for advertisement purposes samples of inflated German currency. A counter-meeting was organized by supporters of the President, under the leadership of Father Coughlin, whose Sunday afternoon radio sermons on monetary policies had begun to attract nation-wide attention. Senator Borah and James P. Warburg, once a member of the President's "brain trust," attacked one another's ideas in an exchange of letters. A group of Columbia professors pleaded with the President "to resist the demands of inflationists; otherwise the country is likely to witness a major financial crisis in the next few months."

But the administration stood steadfast. Genially smiling, the President showed no sign of being perturbed. In spite of the flood of propaganda which poured upon the country from great financial houses, orthodox economists and conservative publicists, public confidence in the President remained unshaken. Though few really understood his policy, it is a curious commentary on the popular attitude toward the orthodox leaders of our economic system that this propaganda had virtually no effect in changing the almost naïve faith of the American people in the new Moses who was to lead them out of the depression. That the conservatives had overshot their mark and that a reaction was beginning to set in was shown when, within a few days, discussion narrowed down to the real issues. Instead of the debate being between fiat money and the old gold standard it concerned the various methods of dollar depreciation and the point at which stabilization was desirable. When the President late in December announced his adherence to the silver purchase agreement of the World Economic Conference, it created little discussion.

How effective has the administration's monetary policy been thus far? From April 19, when depreciation began, until the end of 1933, the dollar depreciated 39 per cent; wholesale prices advanced 20 per cent and industrial activity was higher by 19 per cent. Critics assert that the improvement was inherent in the nature of things, that it came in spite and not because of the monetary policy, and that other factors had played their part.

The year 1933, which opened in an atmosphere of dread of impending disaster, thus ended with widespread confidence, with a feeling that the worst was over and with cheerful but cautious expectancy that better things were ahead. The economic statesmanship of President Roosevelt had at any rate so far stood the test of devastating criticism and continued to command the confidence of the American people.

Pan-Americanism Reborn

By ERNEST GRUENING

[Dr. Gruening was the general adviser to the United States delegation at the recent Pan-American Conference. The following article is a sequel to his contribution "A New Deal for Latin America?" which appeared in December CURRENT HISTORY.]

THE Seventh Conference of the American States, which concluded its labors at Montevideo on Dec. 26, accomplished far more than even the most hopeful expected. Because of internal difficulties in many of the participating countries and changing and uncertain economic programs, there was a general desire to postpone the conference, but no nation wished to assume the initiative in such a step.

As far as the United States was concerned, Cuba had, in consequence of our non-recognition of the Grau San Martín government, become a powder keg ready to explode under the noses of our delegation. A further blow seemed to be given the prospect of achievement by the White House announcement, the day before the American delegation sailed, that economic questions were taboo because of "unsettled conditions." Furthermore, on the eve of the conference the Latin-American press published a letter from President Roosevelt to President Vincent of Haiti, declaring that the United States was "under an unescapable obligation" to carry out the existing financial control "upon which the bondholders were entitled to insist." This announcement, which cut across the efforts, as reported in the Haitian press, of Secretary Hull to find a solution of the problem consonant with his own liberal ideas and the administration's "good-neighbor" policy, could not have been more inopportune.

The first item on the agenda of the conference was the "organization of peace." Although considerable progress has been made in the development of peace machinery in the Western Hemisphere, it is still defective. Besides a great variety of bilateral treaties, which fall far short in themselves of guaranteeing peaceful settlement of disputes, there are the following more important agreements of continental character: (1) The Gondra Treaty, officially known as the Treaty to Avoid or Prevent Conflicts, signed at the Fifth Pan-American Conference at Santiago in 1923; (2) the Inter-American Conciliation Convention of 1929, which is supplementary to the Gondra Treaty; (3) the Inter-American Arbitration Treaty. Apart from the mild procedure prescribed under these treaties, the sum total of this existing machinery is defective because it has been weakened in varying degree through reservations and the failure of various States to ratify the agreements. The United States and Argentina have in differing ways been the chief offenders.

The United States has not ratified the Inter-American Arbitration Treaty because the Senate, under the leadership of Senator Borah, insisted upon attaching a reservation that the President secure the consent of the

Senate for arbitration in every specific case. As the treaty in its first and basic article provides for the compulsory submission of disputes to arbitration, this reservation completely nullified the treaty, and the State Department had no other choice than to withdraw it. This action produced a most unfavorable reaction throughout the rest of the hemisphere, where it was regarded as a deadly blow at the development of peace machinery.

At the other end of the continent, Argentina, harboring a dislike for the United States and for Pan-Americanism, had persistently refused to adhere to any of the continental treaties. Nor had Argentina signed the Kellogg Pact, because of the statement, made coincident with our ratification, by the Senate Foreign Relations Committee that "the United States regards the Monroe Doctrine as a part of its national security and defense." Argentina has long refused to acknowledge the validity of the Monroe Doctrine. Other factors have played a part in the estrangement of Argentina and the United States, but the principle of arbitral procedure is not hedged with restrictions by Argentina as it is by the United States.

As matters stood on the eve of the Montevideo conference, Argentina had signed none of the inter-American treaties; neither had Bolivia, an important consideration in view of the war between Bolivia and Paraguay. Argentina and Bolivia were the only nations that had not signed the Gondra treaty; five others—Costa Rica, Honduras, Paraguay, Uruguay and Venezuela—had not signed the Inter-American Conciliation Convention of 1929; and nine, including the United States, had yet to sign the Inter-American Arbitration Treaty of 1929.

Bolivia and Paraguay were also the only States that did not sign the declaration of Aug. 3, 1932, addressed to them by the other nineteen American nations, with a view to arresting the hostilities between those two countries. In its concluding and essential paragraph this states, what is in effect the "Stimson doctrine," that "the American nations * * * will not recognize any territorial arrangement * * * which has not been obtained through peaceful means nor the validity of territorial acquisition which may be obtained through occupation or conquest by force of arms." Since both Bolivia and Paraguay are members of the League of Nations, the only existing common juridical basis for settling the Chaco war by arbitral means was therefore the covenant of the League (Article XVI). A commission of the League was on its way to the seat of the conflict while the Seventh Pan-American Conference was assembling.

A few months before the conference Carlos Saavedra Lamas, the Argentine Minister of Foreign Relations, proposed another international arbitration pact, to be known as the Argentine Anti-War Pact, which differs in no vital particular from existing American treaties. Actually it does not go as far in its language as the Pact of Paris, for it condemns only "wars of aggression," instead of all war as an instrument of national policy. But this is a distinction without a real difference, because the great powers signatory to the Kellogg Pact explicitly or implicitly reserve the right of self-defense. The Argentine Anti-War Pact was on the agenda of the conference under the first heading—"the organization of peace."

In the weeks immediately preceding the conference Señor Saavedra Lamas

made hurried trips to his neighbors and secured the signatures of Brazil, Chile (with reservations), Paraguay and Uruguay. Mexico likewise adhered. Why Argentina, which had abstained from signing all previous treaties, now came forward with one of its own, differing from the others in no essential particular, may seem incomprehensible. The answer is that Argentina's course in this respect arose from psychological factors related to the conspicuous leadership of the United States in bringing about the Kellogg Pact and to our dominant rôle in the Pan-American movement under the aegis of which the continental arbitration pacts have been put forward. Argentina has cherished ambitions of leadership, at least in the southern half of the Western Hemisphere.

Such was the situation when the conference at Montevideo convened in an atmosphere of skepticism, defeatism and distrust. Yet within three weeks that atmosphere had profoundly changed. Argentina had declared its adherence to the Kellogg Pact, the Gondra Treaty and both the Inter-American Conciliation and Arbitration treaties. Eight more nations, including the United States, followed at once by announcing they would adhere to the Argentine treaty, and a general rush of treaty signing by delinquent nations began.

The conference likewise had taken up the Chaco conflict with the utmost vigor. It had pledged the most fervent support to the League of Nations Commission. It had adopted a resolution which, among other things, pledged cooperation with the League in the application of the covenant sanctions, in short, as laid down in Article XVI. The resolution passed the committee on "the organization of peace" at a meeting attended by virtually all the delegates to the conference in a burst of enthusiasm at the last minute of a long session. The resolution remained before the conference unchanged for four days. Then it was modified to permit the nations that either are not members of the League of Nations, or for one reason or other cannot commit themselves to sanctions, to make reservations on that point. These nations, needless to say, included the United States. Brazil likewise was against sanctions. But the strong stand of the conference and its determination to do whatever it could to stop the one war in this hemisphere brought results.

The two fighting nations were, although with some difficulty, prevailed upon to agree to a brief truce, and to submit their whole problem to the League of Nations Commission. Twice the truce was almost broken, because of violations alleged by one of the principals against the other. But the conference adjourned with hostilities suspended and with representatives of both nations sitting with the League Commission at Montevideo. This much could not have been accomplished without the conference.

The responsibility and credit for these impressive developments belong chiefly to Secretary Cordell Hull. From the day of his arrival in Montevideo he was abroad early and late. Informally he called on the heads of delegations, impressing upon them that the conference would be an utter failure if it did not somehow secure peace between the two participating nations which were at war. Every influence was brought to bear, every form of persuasion used. Before long Mr. Hull's patient insistence, manifest earnestness, simplicity and sincerity stimulated a tremendous momentum for action in behalf of peace.

At the same time Mr. Hull was con-

ferring at length with the Argentine Minister of Foreign Relations, pointing out how regrettable it was that such a variety of peace pacts remained unratified by so many nations in the Western Hemisphere. Mr. Hull urged Señor Saavedra Lamas himself to take the lead, and set the example, if he wanted other nations to sign the Argentine Anti-War Pact. In return Mr. Hull offered the signature of the United States—which few had expected—to the Argentine pact. He pointed out further that the general signing of peace pacts would inevitably focus attention on the absurdity of that process unless the Chaco conflict were also settled, and urged Señor Saavedra Lamas as the leader of a great nation to exert his influence.

The Argentine Foreign Minister enthusiastically accepted the rôle of peace leader. Moreover, he who had come to the conference as a potential and probable antagonist was converted into a friend. He accepted the suggestions and acted upon them. The announcement of the reversal of Argentine policy and its acceptance of all the peace treaties came dramatically and unexpectedly at a crowded session two days later.

Mr. Hull's diplomacy had an important effect that was felt immediately throughout the conference; it dissolved the latent antagonism and distrust of Argentina. The press of that nation, none too friendly to the Untied States, consistently critical of the conference and wholly cynical about its possibilities, underwent a profound change. Argentina's abstention from the signing of inter-American pacts and lukewarmness toward Pan-Americanism had become almost a fixed part of national policy. To reverse this policy and attitude was no slight achievement. Mr. Hull did it.

Early in the conference the Argentine Minister of Foreign Relations had moved for the admission of a Spanish observer, a move warmly supported by Mexico and by practically all the Spanish-speaking nations. The sentimental basis of thus recognizing the mother country contained a definite thrust not merely at the United States but at the principle of Pan-Americanism. Pan-Hispanism has been assiduously cultivated by Spain for some years, and the appointment of a Spanish observer had been definitely sought. Hitherto Argentina's orientation has been Europeward. Clearly, the introduction of a European observer was the entering wedge to a much larger participation.

The delegates from the United States sensed the full import of this threat to Pan-Americanism, but Mr. Hull handled the matter with great tact. He explained the possible consequences, but made it known that the American delegation would not oppose the move if it represented the manifest wish of the other nations. Indeed, there was revealed the integral policy of the delegation at the conference to offer no opposition to the desires and aspirations of other nations, offering only cooperation and assistance in any enterprise that seemed mutually beneficial, except where here and there established policy at home required a reservation or perhaps abstention from voting. Brazil, shortly after, made a request for a Portuguese observer—to represent its motherland and tongue. There was talk of the Haitians asking for an observer from France. Argentina and the other countries, meanwhile, had removed the chips from their shoulders. The matter of overseas observers was postponed to the eighth conference, five years hence.

Secretary Hull managed likewise to win a victory over the forces of extreme economic nationalism at home. Economic matters *were* discussed by the conference. He brought before the conference and, after some vital debate, secured the adoption, amid much enthusiasm, of his proposal for lower tariffs, for the elimination of duties which restrict the importation of particular commodities to negligible quantities and for the early negotiation of reciprocal trade agreements. Nor was this mere rhetoric.

Following closely upon this pronouncement, the conference resolved to call shortly a financial and economic conference at Santiago and a technical commercial conference at Buenos Aires, at which general purposes might be translated into specific action. The only qualifications in Secretary Hull's proposals were concerned with time. He made it plain that the United States was experimenting with an emergency program and that certain exceptions to the general policy of tariff reductions and the lowering of international trade barriers might have to be made in harmony with our domestic exigencies. The psychological effect of this proposal and of the resulting plans was great. From expecting to discuss nothing of importance and to do nothing of consequence, the conference suddenly found itself dealing with vital matters.

Then came the crucial test—the question of intervention, the shadow cast by the United States over its relations with Latin America, over Pan-Americanism, over the last two Pan-American conferences. It smoldered at Santiago ten years ago. It nearly exploded and wrecked the sixth conference at Havana five years ago. But it was very different at the seventh conference at Montevideo.

Mr. Hull had already voiced his whole-hearted support of "the absolute independence, the unimpaired sovereignty, the perfect equality and the political integrity of each nation large or small," and his opposition to "aggression in every sense of the word." This stand produced an excellent effect—largely because of Hull's sincerity. Still, Pan-American conferences have been surfeited with verbiage—sonorous, vibrant, beautiful and signifying nothing. Mr. Hull proceeded. He spoke of expecting his nation's course and that of other nations to be judged by their acts; he spoke of the desire of the Roosevelt administration so to be judged. "My government," he said, "is doing its utmost, with due regard to commitments made in the past, to end with all possible speed engagements which have been set up by previous circumstances. There are some engagements made in the past which can be removed more speedily than others. In some instances disentanglements can only be brought about through the exercise of some patience."

Herminio Portel-Villà, a leading Cuban delegate, at once took the floor to point out that Mr. Hull's allusion to past commitments and the desire to end them speedily clearly referred to the Platt Amendment and the permanent treaty with Cuba which incorporates the amendment. The Cuban delegate hoped that Mr. Hull's declarations would be converted into facts even if the presence in Cuba of a "diplomatist, perturber of peace," had resulted in only partial realization of the "good-neighbor" policy.

Three days later the afternoon devoted to "rights and duties of States" resolved itself into a discusison preliminary to voting on ten articles of which the eighth declared that "no State has the right to intervene in the

internal and external affairs of another." The discussion centred wholly on that one article—on intervention—with a unanimity of sentiment, a depth of feeling and at the same time a restraint that were impressive. After the debate had proceeded for two hours Mr. Hull arose to make a statement of great historic importance as follows:

> The policy and past attitude of the United States Government toward every important phase of international relationships in this hemisphere could scarcely be made more clear and definite than they have been made by both word and action, especially since March 4. * * * Every observing person must by this time thoroughly understand that under the Roosevelt administration the United States Government is as much opposed as any other government to interference with the freedom, the sovereignty or other internal affairs or processes of the governments of other nations.
>
> In addition to numerous acts and utterances in connection with the carrying out of these doctrines and policies, President Roosevelt during recent weeks gave out a public statement expressing his disposition to open negotiations with the Cuban Government for the purpose of dealing with the treaty which has existed since 1903. I feel safe in undertaking to say that under our support of the general principle of non-intervention as has been suggested, no government need fear any intervention on the part of the United States under the Roosevelt administration. * * *
>
> In the meantime, in case of differences of interpretations and also until they can be worked out and codified for the common use of every government, I desire to say that the United States Government in all of its international associations and relationships and conducts will follow scrupulously the doctrines and policies which it has pursued since March 4, which are embodied in the different addresses of President Roosevelt since that time and in the recent peace address of myself * * * before this conference and in the law of nations as generally recognized and accepted.

When the ten articles covering various aspects of the rights and duties of States came to a vote, Honduras, first in order by lot, voted "Yes." The United States came second. Mr. Hull declared that he voted "Yes," subject to the reservations contained in his previous remarks, already quoted. The remaining delegations voted for the ten articles without reservation.

The sentiment among the other delegations was on the whole enthusiastic over the expression of a new and different attitude on the part of the United States. Some regret was voiced that the United States could not have made a sweeping and clean-cut renunciation of intervention in every form in all circumstances. Some regret was voiced that the promise about the permanent treaty with Cuba was not more specific. Nevertheless, it was felt, and this feeling grew with a reconsideration of Mr. Hull's assertion, that "no government need fear any intervention on the part of the United States under the Roosevelt administration," that here indeed was the announcement of a new chapter in the history of relations between the United States and Latin America.

The conference adopted many lesser projects. It approved a treaty eliminating discrimination between the sexes in matters of nationality. It adopted the proposal of the United States for an early conference of aviation experts with a view toward speeding inter-American communications by air. But the really outstanding achievements of the conference relate to peace and good will. It endowed Pan-Americanism with new life. It established friendship for the United States and faith in its purposes on a plane higher than ever before. It paved the way for substantial progress among the peoples of the Americas in every activity in which they have a common interest. It was a tangible, substantial, noteworthy achievement.

MONTEVIDEO, Dec. 26, 1933.

Nazi Dreams of World Power

By FREDERICK L. SCHUMAN

[The writer of this article, who is Professor of Political Science in the University of Chicago, has just returned to America after eight months' first-hand study of the conditions in Germany. Among his published works are *American Policy Toward Russia Since* 1917, *War and Diplomacy in the French Republic*, and *International Politics—An Introduction to the Western State System*.]

To understand the aims and methods of Nazi diplomacy it is necessary to distinguish between the more or less permanent purposes of German foreign policy since Versailles and the new elements introduced by the Nazis themselves. Revolutions never constitute a complete break with the past, least of all in the realm of foreign affairs. Despite the ceaseless condemnation of the "November criminals" of the Weimar "Jew Republic" by the Nazi leaders, the chief goals of their diplomacy do not differ materially from those of their predecessors.

These objectives are dictated by Germany's geographical location, by the values and symbols of the German ruling classes and by Germany's international status since 1919. The Nazi revolution has neither changed geographical facts nor has it been in any real sense a social upheaval, replacing one ruling class by another. Nazi Germany is even more a bourgeois-Junker State than was Republican Germany. The Reich's international position, to be sure, has been seriously affected by foreign reactions to the events of the past year, but the broad realities of power relationships between the States of the Continent remain the same. The novelty of the present situation is to be found in new methods, a new spirit, a new orientation rather than in any important departure from the line of policy pursued by Germany since the World War.

This policy is necessarily one of seeking to recover for the Reich the power and prestige that were lost in the war and at the peace conference. The foreign policy of Germany, like that of every other great power, aims at a maximum enhancement of the power of the State in relation to its rivals in the international arena. A "great power" which is impotent is a contradiction in terms. The Allies in 1919 sought, unsuccessfully as the sequel shows, to reduce Germany to impotence by limiting her armed forces, by depriving her of all her overseas and much of her European territory, by imposing economic and financial burdens upon her, by condemning her in a variety of ways to an inferior status. The general task of German diplomacy since Versailles has been to get rid of the military and political hegemony established by the victors and to restore a balance of power which might in the long run make possible the recovery of lost provinces and the creation of a new *status quo*. To remove the stigma of inferiority, to recover for Germany equality of status and freedom of diplomatic action were obvious purposes of every republican Cabinet between 1919 and 1933.

Specifically, a restoration of German power demanded the evacuation of the Ruhr and the Rhineland by

Allied troops, the termination of reparation payments, the recovery of equality in armaments, the reannexation of lost territory, union with Austria and, eventually perhaps, recovery of the colonies. Every significant step of post-war German diplomacy was directed toward the attainment of these objectives, as was clearly admitted in Stresemann's memorandum of September, 1925, to the ex-Crown Prince.

It is more in the conception of means than of ends that the Nazi diplomatists differ from their republican predecessors, for whom diplomacy was, to use a Bismarckian phrase, the art of what is possible. The Nazis repudiate this dictum, for their phenomenal internal successes dispose them to believe that everything is possible with sufficient determination and fanaticism. But table-thumping diplomacy produces only new defeats if demands and threats cannot be supported by potential force. Lacking the means of force, the Foreign Ministers of the republic resorted to conciliatory gestures and bargaining. Locarno will always remain the symbol of this policy. Stresemann there accepted Germany's Western frontiers as permanent and secured in return Germany's membership in the League as a great power and Germany's definite return to the comity of European States.

This policy was far more successful than the Nazi leaders are disposed to admit. It secured the evacuation of the Rhineland in 1930, five years before the date set by the Treaty of Versailles. It secured the end of reparations at Lausanne in 1932. It secured the termination of the activities of the various financial, economic and military control commissions set up by the Allies. These were all substantial revisions of the treaty, however much they may be minimized by Nazi spokesmen or forgotten by German super-patriots. Further revisions by a process of pacific bargaining were in prospect before 1933.

But none of the major military and territorial objectives was attained during fourteen years of the Weimar Republic. And this "failure" ultimately earned for the republican statesmen the contempt and hatred of millions of Germans, whipped to nationalistic frenzy by Nazi agitators.

The Nazi leaders as apostles of action have adopted radically different means of attaining the desired ends. They have abruptly broken off cooperation with other powers through existing international institutions. They have championed "direct negotiations" and secret bargaining of the familiar pre-war type between the chancelleries. They have made conciliatory gestures toward France and Poland in the hope of initiating such bargaining. They have greatly accelerated the process of cautious secret rearmament. They have flirted with Rome and London in the hope of building the type of Anglo-German-Italian alliance against the French bloc which Hitler and Rosenberg have dreamed of for a decade. They have soft-pedaled plans of naval rearmament and colonial expansion in order to conciliate British opinion and they have renounced irredentist ambitions regarding the South Tyrol to conciliate Mussolini.

But there are also novelties in objectives as well as in methods. Hitler's first important public speech in Munich in 1920 was a eulogy of the Treaty of Brest-Litovsk. Before 1933, he and Rosenberg openly advocated German expansion to the east. They looked not to a modest restoration of the frontiers of 1914 but to the build-

ing of a greatly enlarged Pan-German State. As peasant-petty-bourgeois apostles of "Blood and Soil," they are anti-colonialists. This "Eastern orientation" differs entirely from that foreshadowed in the treaty of Rapallo and championed at one time by Count von Reventlow. Far from seeking an alliance with the Soviet Union, it would acquire territory at its expense. Here the Nazi mission of saving Europe from bolshevism coincides with the rôle of winning room in the East for Germany's millions in the heroic tradition of the Teutonic knights. The plan is to recover the Corridor by persuading Poland to exchange it for the Ukraine, and then to push eastward beyond Poland and "colonize" Russia, as Hugenberg so indiscreetly admitted at the London Economic Conference last June.

All this is part of a Pan-German program which contemplates the incorporation into a greater Germany of Austria, portions of Czechoslovakia, the Baltic Littoral and such other regions to the East and South as can be advantageously appropriated. The road to Pan-Germanism lies through Pan-Fascism. In a crusade against the land of the "Jewish world-plague," bolshevism, and against the "decadent democracy" of France, Poland and the Little Entente, potential allies are available in Fascist Italy, semi-Fascist Japan and the reactionary governments of Hungary and Bulgaria. These dreams of the more remote future are no longer emphasized in public speeches and press statements, but they permeate the entire literature of the Nazi movement.

Thus far even the more modest of these ambitions have been completely frustrated by the unprecedented diplomatic isolation into which the Third Reich has been thrust. The boycott of Geneva has given great psychic satisfaction to Nazi patriots, but it has produced only negative diplomatic results to date. France and her Eastern allies have been content to pursue a policy of masterly inactivity. The already moribund Disarmament Conference has been finally wrecked, but British sympathy for the Reich has been almost totally lost as a consequence. Mussolini has viewed German designs on Austria with disapproval and alarm. Austria itself, ready for union with Germany a year ago, is now a bitter foe. The Little Entente has been strengthened. Poland and Rumania, far from cherishing designs of aggrandizement at the expense of Russia, have made sweeping non-aggression pacts with the Soviet Union. In the face of the Fascist menace, Litvinov has been able to win a series of striking diplomatic victories for Moscow. Nazi anti-Semitism and Aryan megalomania have produced a violent revulsion of feeling throughout the entire civilized world and have antagonized governments and public opinion in almost every country on the globe. The end of the first year of the Hitler régime finds Germany encircled by hostility and suspicion on every frontier. The new preachers of *Realpolitik* are thus temporarily incapacitated for all effective diplomatic action.

The diplomatic behavior of the Reich in the face of this isolation is intelligible only in terms of the dual control of its foreign policy. If one walks along the Wilhelmstrasse in Berlin, one will find housed in the buildings at Nos. 74-76 the Foreign Office of the German Government (the *Auswärtige Amt*, or AA for short), presided over by Baron von Neurath. A few doors to the north on the same side of the street, at No. 70, are the headquarters of the Foreign Political Bureau of the National-Socialist German Workers'

party (the *Aussenpolitische Amt der NSDAP,* or APA for short), presided over by Herr Alfred Rosenberg. The AA is legally entrusted with the task of formulating the foreign policy and administering the foreign affairs of Germany. The APA is an organ of the Nazi party, not of the German Government. It has no legal functions under German statutes. Foreign diplomats have no official contacts with it. Its agents abroad have no official contacts with foreign governments. Its organization and specific duties are carefully guarded secrets and it does its work behind closed doors. The officials of the AA are career men of the foreign service. The officials of the APA are party members and in many cases members of the Storm Troops or Security Corps.

Between the AA and the APA there is no formal liaison. But Herr Rosenberg's instructions to his agents go out in the diplomatic pouches of the AA, whose officials in turn are not above prying into the APA's machinations. And Herr Rosenberg's agents abroad, in addition to their other activities, are often engaged in spying upon Foreign Minister von Neurath's subordinates to make certain that they represent faithfully the spirit of the Third Reich.

That Herr Rosenberg would like to be Foreign Minister is common knowledge in Berlin. That Baron von Neurath would like to be rid of Herr Rosenberg is equally probable. But von Neurath, as a member of Chancellor Hitler's Cabinet, must suffer in silence or lose his post. And Chancellor Hitler can ill afford to replace von Neurath by Rosenberg, for von Neurath and his staff are still diplomatically respectable abroad, while Rosenberg is suspect. His adventures in London last Spring did not enhance his reputation for diplomatic astuteness. He is, moreover, a Russian émigré. By way of overcompensation for his name and his birthplace, he is the most bitterly anti-Semitic and anti-Soviet of the Nazi leaders. As long as a semblance of diplomatic relations with the Soviet Union can be continued, as long as an appearance of dignity and diplomatic polish can be maintained in dealing with other foreign governments, he is ineligible for the post he covets.

But Herr Rosenberg is far closer to the sources of power in the German State than is Minister von Neurath. He is an editor of the *Voelkischer Beobachter* and is high in the counsels of the party. His APA is housed in the same building which houses the equally mysterious "Defense Policy Bureau" *(Wehrpolitische Amt)* of the Nazi party. The face of German foreign policy is the face of Minister von Neurath, but the voice is the voice of Herr Rosenberg and his party colleagues.

This dualism in the conduct of German foreign affairs has a counterpart in the formulation of German foreign policy. Since March, 1933, that policy has been publicly set forth in a series of addresses by the Chancellor, in all of which he has expressed a desire for peace, international understanding and conciliation. These words have been accompanied by a series of steps which have torn great rents in the existing fabric of international organization and cooperation — withdrawal from the International Labor Organization, abandonment of the World Court, severance of German ties with the Disarmament Conference, termination of German membership in the League of Nations. Behind these acts are purposes which were frankly and repeatedly expressed by Hitler and

his fellow-workers in speeches, articles, pamphlets, books and party newspapers for fourteen years before the rise of the Nazis to power. Any one who takes the trouble to read this literature need remain in no doubt as to what these purposes are. There is no reason to believe that they have been changed during the past year. Diplomatic expediency has merely dictated that they be concealed or denied until circumstances are more propitious for their attainment.

The true visage of Nazi foreign policy is not to be discerned in the dignified restraint of Baron von Neurath nor in Chancellor Hitler's words of peace, but in the orientation of Herr Rosenberg and his party colleagues and in the psychology and ideology of the National-Socialist world-outlook, which, as we have seen, has had diplomatic consequences of a most unfavorable character. In trying to counteract these developments the Nazi leaders have proceeded along two lines: (1) The organization of a widespread propaganda abroad, accompanied by the support of Fascist and anti-Semitic political groups in other countries; and (2) the spiritual unification of Germany through systematic intimidation of foes and indoctrination of sympathizers, accompanied by extensive psychological and material preparations for German rearmament.

Herr Rosenberg's APA, paralleling the AA in its organization into geographical divisions, is not only an espionage organization for the control of German diplomats abroad, but a propaganda agency designed to create favorable sentiment for the new Germany. Much attention is devoted to Great Britain and the United States. Hitlerite propaganda abroad is primarily anti-Communistic and anti-Semitic. The campaign against communism has thus far had little result in other countries. The anti-Semitic crusade has defeated itself by alienating foreign opinion still further, at least in the Western democracies. In Berlin the degree of a foreign country's friendship for the new Germany is measured by the extent of anti-Semitic fanaticism among its people. Not only has this procedure (reminiscent of the worst ineptitudes of prewar and wartime German diplomacy) served to destroy all liberal and radical sympathy for the German plea for treaty revision, but it has impressed millions of conservative citizens in dozens of countries as being outrageous and has helped to make Germany's spiritual solitude as complete as her diplomatic isolation.

Baron von Neurath has no means at his disposal for checking these activities or of undoing the damage they cause. Rosenberg, like Hitler, Goebbels and other leaders, attempts from time to time to counteract the effects of his own blunders by issuing reassuring statements on German diplomatic purposes. Last Summer his paper was filled with faked photographs and stories of horror about the "famine" in Russia, by way of showing Germany what it had been rescued from by Hitler. The *Voelkischer Beobachter* of Dec. 7 contained a plea for rapprochement with the Soviet Union. To those familiar with the dynamics of German foreign policy, such appeals for "understanding" only indicate that Herr Rosenberg, rather than Baron von Neurath, is the international spokesman of the Nazi régime and that Herr Rosenberg regards inconsistency and deceit as the essence of successful diplomacy. Foreign governments which are acquainted with the Nazis' cult of force, their worship of power and their ideal of heroism must necessarily take such

assurances with some grains of salt.

Far more successful, and ultimately perhaps more significant, has been the campaign at home to weld the German population into a solid block of fanatic Nazi supporters ready to do or die for the new Fatherland. Here Nazi propaganda technique has been as skillful as it has been clumsy and futile abroad. At the same time extensive material preparations are being made for the creation of a new army. Though the secrecy of these activities renders any trustworthy estimate of the fighting power of the new Germany impossible, Captain-Minister Roehm admits that the "political soldiers" under his command, exclusive of the Reichswehr, are about five times more numerous than the standing army of France. No one in the Reich believes the fiction that these uniformed and disciplined fighting forces are maintained to combat Marxism at home. This enemy was completely liquidated last Winter and Spring. The new army looks abroad for its future foes. But it is as yet no match for the armed forces of France, Poland and Czechoslovakia, and it still lacks heavy artillery, tanks and adequate sources of munitions, poison gas, war planes and trained infantry reserves, as the Nazi leaders never tire of pointing out to the German people.

Since the new armed forces are not yet adequate to support German diplomacy by effective military pressure, the next immediate objective of German foreign policy must necessarily be the recovery of "equality of rights" in armaments. The disarmament of the French bloc down to the German level would be the cheapest means of bringing about a parity of power between the Reich and its potential enemies. The superficial plausibility of this demand has led the Nazi authorities to pose as champions of "disarmament" at home and abroad.

But no illusions are entertained in Germany on this score. The Nazi leaders are students of Machiavelli, Clausewitz and Bismarck. For them diplomacy is potential war and war is merely diplomacy carried on by different means. They know that their diplomatic demands unsupported by force are futile, since these demands are such that they must be resisted, by force if necessary, by France and her allies for their own security. They know that Germany can achieve military superiority over her neighbors only by German rearmament. Captain Goering's plea to the powers for pursuit planes last June fell on deaf ears. Von Neurath's demand to Sir John Simon for immediate arms equality last October was likewise refused. The subsequent German retirement from the Disarmament Conference and the League was expected to precipitate a diplomatic panic in which other governments would grant almost anything to induce Germany to return to Geneva. To the intense disappointment of the Nazi régime, the panic failed to materialize and the more recent "direct negotiations" have also been fruitless.

The attitude of France and the other countries forming the *status quo* bloc has been reassuring only in the sense that any precipitate resort to reprisals or sanctions seems remote. Secret German rearmament can be pushed considerably beyond its present stage before this danger is likely to become acute. But the risk remains. France, Belgium, Poland and Czechoslovakia can, if need be, send 4,000 war planes over Germany and hurl more than a million fully equipped troops across the German borders within a few weeks' time. So long as this danger

exists Berlin must speak softly and champion "peace." The Hitler program cannot be realized until this risk is removed by the recovery of German freedom of action in armaments, and even then several years of intensive military preparation will be required before the Reich can dare to challenge its neighbors. The recent demand for a Reichswehr of 300,000 men, equipped with modern weapons, is the opening move in a diplomatic game designed to win for Germany legal and political liberty to rearm. Although the immediate prospects of attaining this goal are none too good, the imperative necessity of its ultimate achievement, from the point of view of the broader purposes of Nazi policy, is obvious.

These considerations suggest that war in Europe is not imminent this year, nor yet next year, nor the year after. They also suggest that war is highly probable within a decade—as soon as Nazi diplomacy has behind it a fighting force that seems likely to succeed in a clash of arms. German military leaders, in contemplation of a new conflict, are already preparing their strategic blueprints. Because of Germany's central position, highly developed technology and 64,000,000 disciplined patriots, the German General Staff can count in the years ahead, as it could count before 1914, on meeting odds that are apparently overwhelming. The Imperial German Army was the most efficient fighting machine the world has ever seen. The memory of its achievements has left a legend of invincibility in the German mind. Every patriot now tends to accept as fact the Nazi myth that the army was undefeated in the field and was betrayed by the Jewish-Marxist "stab-in-the-back" from behind the lines.

There is no reason to suppose that the new army will be any less efficient when it faces its adversaries. Its commanders are laying their plans on the assumption of a rapid war of movement between highly mechanized field armies. The French will be checked by defensive tactics in the Rhineland, while swift attacks are launched against France's allies in the East and South. This strategy, however, requires a southern flank attack against the enemy coalition. An alliance with Fascist Italy, which is almost a prerequisite for victory, is by no means outside the limits of the diplomatic probabilities of the next five years. Italy, it is assumed, will crush Yugoslavia, aid Hungary and Bulgaria against Rumania, and partially checkmate France, while the German armies overrun Poland and Czechoslovakia. This accomplished, it is assumed that France will accept a negotiated peace, giving Germany a free hand in Eastern Europe.

This plan presupposes Soviet neutrality, which is probable, and British neutrality, which is possible if France and Belgium are not invaded. American neutrality is taken for granted, with Japan possibly acting in the Far East to distract both Moscow and Washington. From the German point of view, the dangers of such a combat in 1938 or 1940 are substantially less than were the dangers of Germany's strategic position after Sarajevo. Beyond war the Nazi leaders see millennial visions of a new German world empire. Beyond war other observers, perhaps less courageous, see only ruin and death for Western civilization. But to heroes death with honor is always preferable to humiliation and disgrace. The only moot question is whether in the twentieth century such "heroes" are not perhaps merely madmen.

Fascist Stirrings in Britain

By GEORGE E. G. CATLIN

[Mr. Catlin is an Englishman who has been Professor of Politics at Cornell University and is now engaged in political work in England.]

ENGLAND has so far had four Fascist organizations—the British Fascists, Ltd., the National Fascists, the Imperial Fascist League and the British Union of Fascists, but when fascism is discussed in England today the only group seriously considered is the last named, led by Sir Oswald Mosley.

The British Fascists, Ltd., the first to be formed—by Miss Lintorn-Orman in 1923—came on the scene as "a non-political, non-party and non-sectarian society" to combat socialism. Originally it cooperated in anti-Communist activities with such bodies as the Anti-Socialist and Anti-Communist Union, the Economic League and the 1912 Club, and its officials admitted that it was an unofficial adjunct to the Conservative party. Its influence is now negligible, even though it claims 416,000 members. Many of them, however, it is confessed, pay no dues, which no doubt explains why the headquarters of the organization consists merely of a house in respectable Kensington, and why it has no branch at Birmingham, the Midland metropolis.

The program of the British Fascists, Ltd., is a curious medley of vague imperialism and anti-Semitism, including proposals that all Jews shall be declared resident aliens, and that Great Britain shall enter into "close economic connections with our colonies, including Canada and Australia." The measure of th political experience may b by its use of the word "col two of the most sensitive and dent-minded of the Dominior

The National Fascists were in 1928, following a split in ish Fascists on the issue of a ly Fascist, as opposed to a n anti-Communist, policy. The ganization was the first i Britain to advocate the C State. But it had only a brie for it dissolved later in the s owing to unfortunate financ plications and the public rid corded to the freakish milita tices of its members, such a ing outside its offices witl swords.

The dissolution of the Natic cists led to the foundation of perial Fascist League by Leese, a retired veterinary who had been a member firs British and then of the Natio cists. The league has been ve Mr. Leese's private affair. It cording to its rival, the Brit cists, Ltd., about 500 memb headquarters consists of tw without a telephone over a shop in London. Policy is dict the founder, who maintains ri trol over the whole orgar Among the planks in its progra for sending all Jews to Mad This bizarre society would c be wholly without importance press agency of the German N Socialist party had not chose

own official pamphlets to insert leaflets issued by the Imperial Fascist League, presumably to show that a British organization also preaches the doctrines of Nordic supremacy and anti-Semitism.

There remains the British Union of Fascists, which also owes its origin to a single individual, but an individual of rather different calibre from either Miss Lintorn-Orman or Mr. Leese. This is Sir Oswald Mosley, who was Chancellor of the Duchy of Lancaster in the second MacDonald Cabinet from 1929 to 1930, and is thus an ex-Minister of the Crown. He is a sixth baronet, the title having been created in 1781, was educated at Winchester and at the Royal Military College, Sandhurst, and fought in the World War both as a cavalry officer and as an aviator. After the war, in the so-called Khaki election of 1918, Sir Oswald entered Parliament at the age of 22 as the Conservative member for Harrow. Immediately he became conspicuous. He was rich; he was handsome; he could speak; he had a fine war record; he belonged to the aristocracy, and he was one of the best fencers in England. He married the beautiful and spirited Lady Cynthia, daughter of Marquess Curzon, former Viceroy of India. Surely Sir Oswald's future seemed not only clear but radiant.

From the beginning, however, Sir Oswald Mosley found himself dissatisfied with his colleagues; their methods were too slow for his impatience. He remained a Conservative until 1922, but in the 1923 election declared his independence, holding his seat, nevertheless, by a majority of 4,646. The following year he crossed the floor of the House and joined the Labor party. The conversion to socialism of Sir Oswald, as well as of his wife, shocked conventional English society—and brought great crowds to his political meetings. Yet he must have been aware that the shift to Labor would cost him his Harrow seat, and he could hardly have been surprised when in 1924 he was defeated by 77 votes in contesting the Ladywood Division of Birmingham against Neville Chamberlain.

During the next two years Sir Oswald Mosley was outside the House of Commons, but he was busy making speeches, which were neither forgotten nor forgiven by the Conservatives, on the general strike, on India, on Anglo-Chinese relations. Also, he visited other countries, including the United States. Then, in 1926, he was returned to Parliament as member for Smethwick, after a by-election which he won with a greatly increased Labor majority. This seat he held, with a still larger majority in 1929, when, at the age of 33, he went into the Ministry as Chancellor for the Duchy of Lancaster. It is an open secret that Ramsay MacDonald would have liked to put him in the Cabinet, but this move was successfully opposed by J. H. Thomas and Arthur Henderson.

Sir Oswald Mosley, now Minister without portfolio, was assigned with Tom Johnson, who was later to hold the same Chancellorship, to deal with unemployment. Mosley's chief was Mr. Thomas, and the relationship between the Viceroy's son-in-law and the ex-railway man was not perhaps an entirely happy one. Mosley had been so active a member of the Independent Labor party that the executive of that left-wing group occasionally met at his country mansion at Denham. He had interested himself in the problem of an adequate research organization for the party. For unemployment relief he vigorously advocated a policy of public works and of pensions for the older men in order

to take them out of the labor market. The fruit of these notions was the Mosley Memorandum. This once-famous document was by no means acceptable to Mr. Thomas, who treated it with jocose contumely. Once again Mosley, risking the cheaper advantages of a political career, repudiated the line of party orthodoxy and in May, 1930, resigned from the Ministry.

Mosley, who had rented rooms in Westminster for a small personal staff, now changed his headquarters for four rooms in another part of the city. Here the main room was decorated by two large maps—one of the Union of Soviet Socialist Republics and the other of the British Empire. Apart from stenographers and a financial officer, his staff consisted of two persons, of whom one was his exceedingly able private secretary, Allan Young, earlier Labor party organizer for the Birmingham region. In Parliament his lieutenant was John Strachey, who had been his ardent admirer for some years and in 1925 had expressed this admiration in his book, *Revolution by Reason*. Mosley also received some support in his revolt against Mr. Thomas's unemployment policy from several of the younger and more energetic members of Parliament.

Laborites, such as Oliver Baldwin, Aneurin Bevan, W. J. Bevan, J. F. Horrabin, Dr. R. Forgan, Phillips Price and A. J. Cook, general secretary of the Miners Federation, joined with Sir Oswald in signing a manifesto on Dec. 7, 1930, which stressed the need for action; for economic planning; for import boards and tariffs where warranted, in order to protect the domestic wage scale; for housing reform; for constructive works; and also for an emergency Cabinet of five. General sympathy with many of their proposals was expressed by Walter Elliott, now Conservative Minister of Agriculture; Oliver Stanley, now Conservative Minister of Transport; W. E. D. Allen, M. P.; Robert Boothby, M. P.; Harold Macmillan, M. P., and others.

After resigning from the Ministry Sir Oswald had pressed upon the Labor party his policy of pensioning older workers and raising the age for leaving school. He would probably have been successful at the meeting of the Parliamentary Labor party had he not chosen to force the issue of what, in effect, amounted to a vote of non-confidence in the Labor executive's policy. But it did not prevent his being elected by acclamation to the presidency of the Trades Union Club.

An earlier incident than the manifesto of Dec. 7, 1930, had shown the trend of Sir Oswald's policy. At the time of the Labor party conference at Llandudno, in September, 1930, he sat on after most of the guests—Cabinet Ministers and others—had departed from the main dining hall of the Grand Hotel. To a group of three men, which included Allan Young, his secretary, and W. J. Brown, secretary of the Civil Service Clerical Association, he declared, in commenting upon the reception of his speech during the conference: "This means a dictatorship."

Within five months Sir Oswald had left the Labor party to found, in February, 1931, the New party, announcing a policy for which he had argued while he was in the Ministry. This included the remedies for unemployment already described (of which the pensions section has since been advocated by leading members of the Labor party); an economic policy of national control of imports and exports by technical boards, set forth in the

manifesto of Dec. 7, 1930; economic planning, with a national investment board and planning commissions of experts, and a revision of the Parliamentary and Cabinet system. The control of policy by an inner Cabinet of five reappeared as a plank in the New party program. Wits at the time said that this directorate would consist of (1) Sir Oswald Mosley, (2) the late Chancellor for the Duchy of Lancaster, (3) Comrade Mosley, (4) Tom Mosley (his name among his Labor friends), and (5) the member of Parliament for Smethwick.

The New party was founded in the hope that its program would attract intelligent men of all parties who desired a policy of thoroughgoing social reform. Almost before its inception this hope was disappointed. A statement in the *Observer,* attributed to Sir Oswald's inspiration, alarmed certain Labor members of Parliament. Aneurin Bevan, M. P., and W. J. Brown, M. P., did not join the party, while Oliver Baldwin's sojourn with it was brief. On the general ground that it was rapidly moving to the Right, and on a specific charge based on its attitude toward the Soviet Union, various members who had been brought up in the school of the Independent Labor party, such as John Strachey and Allan Young, the secretary of the New party, seceded. The loss of Allan Young was peculiarly unfortunate, since the combination of his gifts with Mosley's was singularly valuable, Young having a talent for amassing polemic material and Mosley being a master of its exposition.

Sir Oswald and his wife never begrudged expense in forwarding the political course they espoused, and at this time, to cover costs, several of their five residences, including Denham, were rented. Part of the funds they invested in *Action,* a weekly paper intended to advance their poliical aims, but despite its being edited by Harold Nicolson and sumptuously advertised, it was an indifferent journalistic production and scarcely a success. And in the election of 1931 the New party was extinguished as a Parliamentary group, for Sir Oswald, Lady Cynthia, Mr. Strachey and Dr. Forgan all lost their seats.

Profiting by his experience, Sir Oswald discontinued his paper and cut down expenses at the party office. The intellectualism of the earlier period was now discarded, and the New party, in September, 1932, re-emerged as the British Union of Fascists. To this Dr. Forgan and W. E. D. Allen adhered. The policy of the newer party was stated in a book by Sir Oswald, *Greater Britain,* which its critics charged with being too strongly marked by generalities. This pragmatism of approach, however, without elaboration of doctrines, has often stood European fascism in good stead.

The policy of the British Union of Fascists, on its economic side, involves concentration upon the development of the home market, which is regarded as Great Britain's only security at a time of increased economic nationalism. The dependence of the United Kingdom upon imports for its subsistence is admitted, but the danger of a 30 per cent dependence upon foreign markets is stressed. The scheme for control of imports and exports and bulk purchase by national organizations, now advocated by the Labor party itself, is ancillary to this policy. With it also is bound up a high-wage system. For a remedy, reliance is placed both upon the attractiveness of the market which Great Britain has to offer—a market which, under a system of bulk purchase, would be available only under conditions decided by the State in accor-

dance with its policy—and also upon the collaboration of the British Commonwealth and the Anglo-Saxon world.

Constitutionally, British fascism affirms its use for the monarchy and its lack of interest in the House of Lords. It also proposes a revision of the Parliamentary system, an increase of executive government largely through Orders-in-Council and a reduction in the size of the Cabinet. These points of policy have also been adopted by certain influential sections of the Labor party. Instead of making the Trades Union Congress, as the Labor party has now resolved, a controlling factor in Cabinet policy, Sir Oswald advocates the Corporate State, including a national council of industry and a national investment board. In *Greater Britain* Sir Oswald also speaks of a movement for social and moral rejuvenation, modern and scientific in outlook, whereby Great Britain might retain her outstanding position among the nations.

Mosley's party is nationalist within the limits imposed by the heterogeneity of the British Commonwealth, but it explicitly condemns chauvinism. While concerned with physical improvement, it is opposed to the obsession of racial purity. It would probably prefer to be described as patriotic rather than as nationalist in the Balkanizing sense; that is, it is interested in Great Britain first, the British Commonwealth of Nations second, and, third, in Anglo-Saxon cooperation (including that of the United States) in the task of forwarding the Anglo-Saxon ideal in the world. That ideal Mosley defines as liberty in private life coupled with performance of public obligations, as against "a system of public anarchy and private repression." On the subject of European and world peace, Sir Oswald has spoken on several occasions. Each time his argument has been that the peace of Europe depends, not upon a vacillating and *laissez-faire* diplomacy, but upon the realization of the Fascist concept of a planned civilization, of which a beginning must be made with planned national units.

In recent speeches Sir Oswald Mosley has attacked the manipulations of high finance and has made a vigorous bid for left-wing suport. By clothing his supporters in black shirts and by calling his policy Fascist, he has raised the question whether a movement so obviously reminiscent of Italy and Germany can appeal to the British, with their proud and highly distinctive political tradition. On this issue, fundamental to the prospects of his party's success, he said recently at Manchester: "We dismiss with contempt the idea that fascism is a foreign creed. We stand for Britain first. * * * You talk of liberty. We want to give you the liberty of high wages, the liberty to abolish slums, the liberty to make England a land fit to live in. We are not content with the liberty of a few old men to mumble and blather in Parliamentary debate."

Nevertheless, Mosley's methods are suspect by the British public. He has not yet discovered a characteristically English formula such as that which enabled Cromwell to combine the individualistic liberty of the Puritan with the authoritarianism of the Protectorate. Behind his undoubtedly eloquent appeals Englishmen visualize the concentration camp. They are alarmed by Mosley's technique of spectacular display; for example, on Oct. 15, 1933, when he went to speak at Manchester to an audience of 5,000, he chartered a special train to take a contingent of London blackshirts with him. He showed himself, as usual, a masterly public speaker, but

few of the papers reported more of the meeting than a trivial scuffle between his attendants and a member of the audience.

He has opened new London headquarters in a derelict theological college next to the Duke of Wellington's Barracks in Chelsea. A great Union Jack floats over the entrance. The walls are plastered with posters: "Shall Jews Drag Britain Into War?" and "Fascism Is Practical Patriotism." The building is a large one; the little groups of blackshirts loitering by the entrance and saluting as officials pass in and out make an impressive show. The open motor trucks that rush through the London streets, flying large Union Jacks and packed with young men in uniform, inevitably attract attention. But at present that attention is critical. The press is unfavorable; the rival Fascist bodies spread rumors that Sir Oswald's organization is "pro-Jewish" and financed by Jews. While young men enjoy the heroics of wearing uniforms, drilling and going on "shock troop" raids in trucks to contested meetings, no additional politicians of any influence have yet allied themselves with the party.

The future of the British Union of Fascists is still a matter for speculation. In private, those who have known Sir Oswald admit that his gift of popular leadership is formidable. What is not so generally recognized is the extent of his intellectual ability or physical energy. There was an occasion when Mosley, at a first glance, noticed a discrepancy between the graphs and the text of a government publication, a discrepancy which must have been missed by thousands of earlier readers. Further, he had, and presumably still has, the ability to return from the House of Commons at 3 A. M. and to sit down to compose his speech for the following day.

For the moment circumstances are unfavorable to Mosley, and the British Union of Fascists has no representation in Parliament. But if the condition of the British foreign markets grows worse, or if Labor returns to office and fails to satisfy the people, the outlook may change rapidly. A threat of war or any situation that increases the Communist vote can serve only to increase the power that Mosley well knows how to use. Should the opportunity arise for an advance to office, Mosley is too brave and determined a man to let it go by default. His defects are those of the cavalry officer who is under a temperamental compulsion to charge; they are not those of a man who hesitates in a crisis.

Problems of India's Poverty

By F. M. DEMELLO

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INDIA presents one of the most vivid contrasts among the countries of today between natural wealth and human poverty, between unlimited economic possibilities and a people held back from exploiting their opportunities. With a modern form of constitutional government, a widespread network of railways, a unique system of irrigation, several large-scale industries equipped with up-to-date machinery and no less than seventeen universities, the nation is still nevertheless medieval in outlook and adjusts itself but slowly to the social and economic changes made inevitable by contact with Western civilization. Upon such a country, poorly organized even in prosperous times to sustain tolerable living standards, the depression has inflicted almost incredible distress.

Unemployment statistics by no means tell the whole story. Large-scale industries, for example, have either slowed down or ceased operations because of decreased demand and the cut-throat competition of Japanese goods. Whereas in Western countries schemes have been devised to create work and relieve unemployment, the Government of India has so far done little. Indian conditions favor this *laissez-faire* policy. In Europe and America the worst unemployment is found in industrial contres, where hunger and want are aggravated by a cold climate and frequently by a sense of social injustice. In India, on the contrary, the great majority of the poor, including those without work, are villagers whose lot is relatively easier since they obtain aid from the members of their families who till the soil. The greater proportion of Indian factory workers have their roots in the countryside and seek work in the towns only for short periods, thus helping to depress industrial wages and effectively preventing combination to improve them. Since the risk of unemployment cannot be calculated owing to the absence of a more or less permanent industrial population, it is impossible to set up a system of unemployment insurance.

While the State has recognized its responsibility by initiating a system of public works and putting these projects into operation when the flow of labor into test works has demonstrated the need for relief, it has been only for the benefit of the rural population. The wage paid is at a bare subsistence rate, though it is coupled with subsidiary relief for dependents and for those who are not able-bodied. These works permit the use of unskilled labor and are usually designed to be of permanent character. Unfortunately, the provincial governments, which are responsible for this system of unemployment relief, are without the funds necessary to undertake new public works of any kind

Agriculture has suffered no less

than industry. The Indian farmer normally lives on the margin of subsistence, producing crops mainly for his own consumption and borrowing money at usurious rates for agricultural implements as well as for personal expenditures. When high prices prevailed, his surplus produce brought him the money to pay taxes, dues to the cooperative society, interest to the money-lender and to satisfy the demands of his family for clothes, ornaments and a few luxuries. But the decline in the money value of the farmer's crops has disabled him completely so that, in an increasing number of cases, after the sale of his wife's gold ornaments which serve as a savings account, he has been forced to sell more and more of the year's produce.

Throughout the country, despite remission of arrears, taxes have remained unpaid. In some provinces the cooperative societies have been enabled to secure the repayment of loans and interest through the government's revenue organization. Officials, driven by an uninspired bureaucratic machine, have evicted defaulting cultivators from the land or have totally expropriated them until in the Central Provinces, for example, the cooperative societies have been faced with the problem of utilizing the land thus acquired. On the other hand, professional money-lenders have refrained from recourse to the law as they hope to make their debtors pay eventually several times the amounts advanced. In some provinces, however, agricultural committees have been appointed to reduce the burden of debt.

Perhaps the most disturbing feature of the depression has been unemployment among the educated classes. Till about twenty-five years ago graduates of schools or colleges easily found employment in public offices and business houses, but today the supply greatly exceeds the demand. Of the thousands of university graduates who ought to find jobs 95 per cent are not, and cannot be, absorbed by business or the public services—and they are not wanted on the land. This educated proletariat, seething with discontent, is one of the chief sources of Indian political agitation and social unrest.

Indian universities are partly to blame, for they confine themselves too closely to "culture" and do not adequately equip men and women for the practical problems of life. They have with justification been criticized on the ground that they do not as a rule train men for any profession except that of general clerk. Without favorable openings in the army, navy, merchant marine or air force, those who cannot find careers in agriculture or industry inevitably crowd into the civil services in the hope of eking out a livelihood at a time when diminished revenues are forcing the government toward retrenchment and salary cuts.

More than ever the depression has brought into high relief the fundamental defects of social and economic organization which are responsible for the hopeless poverty of the Indian masses. In the first place, the population is increasing too rapidly. The census of 1931 showed the greatest ten-year increase India has ever experienced—an addition of 34,000,000 persons. Among several explanations other than the obvious one of a low standard of living, the most important is the custom of early marriage. India, however, has also an abnormally high death rate due to climatic and social conditions. Diseases like malaria, smallpox, cholera and bubonic plague, as well as periodic

famines, operate as checks to what would otherwise be a still greater growth of population. Unhygienic habits and practices and the unsanitary conditions of life in town and village alike, resulting from the poverty, ignorance and superstition of the masses, and the prevalence of peculiar customs such as the marriage of children and the segregation of women in purdah account for many deaths. The high birth and death rates indicate a waste of vitality that most seriously affects social welfare and national efficiency.

If, as has been said, India has reached the margin of subsistence, it is not because there is a shortage of food, but of opportunities for employment. This is particularly true of those areas where the land is excessively subdivided or where the population is not engaged in agriculture and, owing to the absence of industries, has no outlet for its energies. The establishment and maintenance of law and order by the British, the organization of famine relief and of measures against epidemics have encouraged population growth. Yet, with every step toward increased efficiency and every improvement in economic conditions, the birth rate has risen at the cost of a better standard of living. Undoubtedly if the Indian people is to make steady material and moral progress, the birth rate must decline. This can be effected only by widespread recourse to birth control. Fortunately, a start has been made. Mysore has established birth-control clinics in all its public hospitals and its example may soon be followed in the neighboring province of Madras.

Nevertheless, it is difficult to rouse the Indian masses from their ignorance and make them see how their welfare is affected by a rising birth rate. Traditionally the average cultivator is conservative and fatalistic. He cannot be easily stirred by selfish, much less by altruistic, considerations. The whole Indian social structure tends to discourage the ideas and ways of life based upon the pursuit of wealth as a necessary purpose of mankind. This is the essence of Gandhi's economic philosophy, which makes such a strong appeal to so many Indians because of their religious belief that their lives are unimportant episodes in the great drama of past and future and that the only justification for human existence is as a step toward spiritual perfection. Such an ideal is an obvious handicap to efforts to improve conditions in this world.

The principal characteristic of Indian society is the peculiar rigidity of the Hindu caste system, which has extended far beyond Hinduism and influences Mohammedans and the followers of other religions in India. Of the two principles on which it is based, the first is the doctrine of Karma, which maintains that a man is born into the position which he has earned by his conduct in a previous incarnation. Consequently, it is every man's duty to accept the status to which he is born and to accept inequalities of rights and duties. The second principle, that of the religious unity of the family, emphasizes community or group feeling as opposed to individualism and accounts for the joint family system and the subordinate position of Hindu women.

Caste enters into every economic activity, even determining the stages and methods of production. Caste rules direct the choice of occupations, which are followed as inherited callings and not as means to greater prosperity. This explains not only the prevalent lack of enterprise, but also,

because intercaste cooperation is impossible, the enormous waste of labor. Working through the family, however, caste enables several generations to pool their earnings and to suffer the turns of fortune in common, so that, except during famines, organized poor relief is unnecessary.

The higher castes insist upon strict segregation of women, who in their restricted freedom remain illiterate and ignorant. Efforts, however, are being made to improve their position through the Sarda Act (penalizing child marriage), the extension of female education and the organization of women on a national scale to agitate for the removal of their grievances. A few Indian States, notably Baroda and Mysore, have by law freed women from some of their disabilities.

The government of India is unable to move in advance of public opinion in effecting social reforms because it is abstract, impersonal, bureaucratic and represents an alien influence, however benevolently inclined. Moreover, Queen Victoria's proclamation of religious neutrality has kept the government apart from any social issue that the orthodox claim involves their religious beliefs and practices. Every progressive measure is thus indefinitely postponed because the current belief about the rights of women or the social duties of the Untouchables or the economic uses of the cow is governed by ancient scriptures. Under present conditions social reformation is impossible without a national government, commanding sufficient support to secure necessary legislation.

Another striking feature of Indian economic life is its unbalanced character. The last census showed about 67 per cent of India's total population to be dependent on agriculture and animal husbandry, 9.7 on industry, 5.4 per cent on trade and 1.5 per cent on transportation. Of the 234,800,000 persons dependent on agriculture, only 103,300,000 are workers. Similarly, the 15,400,000 actually engaged in industry support 18,000,000 dependents. About twice as large a proportion of the people of India as of other countries is engaged in farming. While elsewhere the number of those engaged in agriculture has been decreasing, in India the number has increased because there is no policy of industrialization.

In the face of India's steady growth in population, no marked increase in production or employment has taken place. There has been in consequence a decline in the average income and standard of living. By standing still, India is growing comparatively weaker in resources. In the last century India exported cotton textiles, iron, steel and sugar to Europe; now she is importing the same products and paying $180,000,000 to $250,000,000 for them. Only thirty years ago India was supplying Japan with piece-goods; today the position is reversed. India as a predominantly agricultural nation can no longer make economic headway.

The government's responsibility for industrial development has never been denied, but the policy adopted has been neither vigorous nor consistent. Without the help of the State the people are unable to organize industries which the country might be able to support. The control of fiscal, financial and currency policies, which has given the government the initiative in economic matters, has operated against India's interest. When, for instance, Great Britain went off gold in 1931, India was permitted to do the same, but the rupee was not, like the pound, allowed to find its own level; instead it was linked to the paper pound at the arbitrary ratio of

one shilling and sixpence and so overvalued by at least 15 per cent, the current American rate being 36.5 cents. Indian exports have fallen off in an amazing fashion, while tariff protection has been counteracted to the extent of the overvaluation.

India for many years enjoyed a large favorable balance of trade, but this has now dwindled to a negligible amount. As against a favorable balance of 717,400,000 rupees annually during the ten pre-war years and a highly satisfactory annual balance of 831,300,000 rupees during the ten post-war years, India's trade balance dwindled to 620,500,000 rupees in 1930-31, to 348,300,000 rupees in 1931-1932 and to the hopelessly low figure of 33,800,000 rupees in 1932-33.

For a country like India, which has to pay huge sums annually, approximately £35,000,000, in the form of "Home Charges" to Great Britain, a much larger favorable trade balance is a vital necessity. It cannot be recovered, however, so long as prices, particularly of farm products, of which India is an exporter, remain at their existing low level. But a considerable rise in farm prices cannot take place until the rupee is devalued. Apparently the government does not yet propose to allow the rupee to find its own level independently of the pound. The Reserve Bank Bill now before the Legislative Assembly, if passed in its present form, will require the rupee to remain at the one shilling and sixpence parity.

The recent decision to undertake an economic survey in order to discover India's industrial potentialities suggests some hope of improvement. Only by expanding present and creating new industries can surplus agricultural labor be transferred from the land to productive enterprises. Protection, which will be essential in some instances, will have to be more timely, more liberal and extended over much longer periods than is now customary. People are out of work because they cannot manufacture the goods they did formerly, and they cannot manufacture profitably because they cannot compete with the cheap goods imported from abroad.

Indian economic reorganization demands genuine effort in dealing with various working-class problems. Factory labor is largely recruited from younger sons for whom there is no land or work at home, village servants who can find nothing to do, cultivators in debt who need cash and ne'er-do-wells. This labor force lives under conditions that make for widespread disease and high mortality. While the per capita income of industrial workers is probably above the average for all classes, their poverty as well as that of the whole people was revealed in 1921-22 by an official investigation of working class budgets in Bombay. This showed that industrial workers generally consume the maximum of cereals allowed by the Famine Code but less than the diet prescribed by the Bombay Jail Manual. The willingness of National Congress volunteers, recruited mostly from the poorest classes, to go to prison for long terms for technical though open breaches of the law will thus be readily understood.

Conditions of employment in factories are deplorable. Every worker is at the mercy of the factory jobber who engages him only on receipt of a bribe and whose favors must be paid for from time to time. Hours for adults, as a result of the Washington Convention, are ordinarily restricted to eleven a day and sixty a week. The low efficiency of the Indian worker, which has been commented upon by

both official and private investigators, has been ascribed to a combination of several factors such as the low standard of living, the lack of physical energy and mental vigor and the enervating nature of the climate. In most industrial areas housing conditions are shocking. Overcrowding and the absence of sanitation and ideas of hygiene lead to disease and death.

The worker's poverty is both a cause and an effect of the permanent state of indebtedness in which he lives and which impedes all efforts to improve his condition. The monthly payment of wages and delays in receiving his money drive him to the moneylender. Debts are incurred from which there is no escape so long as extortionate rates of interest must be paid.

The power of the government and the public to protect workers who cannot protect themselves is strictly limited. Legislation can provide palliatives, but it prevents only the graver abuses. Obviously then the organization of the working classes into trade unions is essential if conditions are to improve, even if that demands knowledge and experience at present rare among Indian workmen.

Depressing as are conditions among the industrial workers, the picture presented by the villages of India is still more gloomy. The poverty, ignorance, dirt, disease and death in the rural areas are appalling and have become worse in recent years. The social services of the government are organized on too small a scale and function too half-heartedly to affect the problem. For instance, the plague is the easiest epidemic in the world to fight, yielding instantly to organization and hard work; proper measures would eradicate it from India in five years. Yet between 1911 and 1920 about 40,000,000 died in India from this cause alone.

The total number of Indian literates in 1921 was 22,623,651 and in 1931, as recorded by the latest census, 28,131,315—8 per cent of the population. Probably illiteracy is the greatest obstacle to Indian progress, but the measures taken to spread education, in spite of financial difficulties, are hardly adequate to bring about nation-wide literacy in the next hundred years. For the slow progress of primary education the people are partly responsible, since they do not appreciate its advantages. In the Bombay Presidency, for example, only one in twenty of the children registered in primary schools stays long enough to acquire any degree of literacy. The remedy for this waste of public funds on incomplete schooling is compulsion, but the responsible local bodies are not assured of adequate or sustained help from the provincial government and frequently lack the courage to impose additional taxes to provide free and compulsory education.

The agricultural classes also need education in the wider sense to enable them to succeed as farmers and acquire some conception of a better life. In two provinces, Bombay and the Punjab, official campaigns for rural reconstruction have been recently initiated and have already won support from a large section of the enlightened public and, more important, cooperation of the villagers themselves. Vigorous propaganda is proposed to convert them to the value of better farming, better health and better education and to new ways of life generally. Efforts, too, are to be made to revive the habit of corporate action which was formerly distinctive of Indian rural life and which, owing to over-centralization of British administrative control, has been completely lost. Through the village coun-

cil and the village cooperative societies, such necessary improvements in housing, water supply, sanitation and communications as the villagers desire are to be undertaken. The government is prepared to give technical advice and some financial assistance.

The importance of these reforms is now generally admitted. Not only has a higher standard of life for the Indian farmer been long overdue; it is also necessary to increase his purchasing power and start the cycle of expenditure upon which the townsman depends for his living. Though the shortage in public funds has prevented the government of Bombay from engaging a trained staff or embarking upon any spectacular enterprise, the government of the Punjab has organized a rural reconstruction department, presided over by F. L. Brayne, whose experiment in the Gurgaon district of that province was attended with marked success.

Without trade recovery, however, the cultivator cannot be persuaded to consider schemes requiring capital outlays or an expenditure of labor. The rural reconstruction worker, for instance, urges the farmer who has several months of complete leisure to interest himself in a part-time occupation, but the number of such occupations is extremely limited and, under present conditions, it hardly pays an idle agriculturist to engage even in spinning, weaving or basket-making. Such makeshifts provide no solution, for it is not so much those who are already occupied in agriculture that need attention as those who cannot find any occupation on the land and who, without any other source of income, become social burdens. The only outlet for this surplus labor is in industry, and this is not possible unless the government adopts an economic policy for the purpose.

Nevertheless, the rural reconstruction movement has evoked a great deal of sympathy for the farmer and has, besides, led many people to volunteer for work in the rural areas. This foreshadows cooperation between the government and the people in striving for social and economic amelioration.

In the past political controversy has been a stumbling-block, since the Nationalists have maintained that all other questions should be postponed until the issue of self-government were decided in India's favor. Even now the National Congress is not reconciled to the proposed governmental reforms. Yet the outcome of the various conferences between Indian and British leaders promises a sufficient measure of self-government for the broadest purposes of social reconstruction. Already political organizations are springing up in several parts of India not, as in the past, on a communal but on a national basis, with a view to capturing the reformed legislatures in the interests of economic progress. The people, under proper leadership and with increased power to shape economic policy, will undoubtedly organize themselves and submit to self-discipline. The problem of India's poverty, many-sided though it be, cannot forever defy solution.

The Men Who Rule Japan

By STERLING FISHER JR.

[The author of the following article is an American journalist whose knowledge of Japanese affairs is the result of several years spent in the Far East.]

JAPAN today presents the phenomenon of a stanchly monarchist country with its leadership drawn chiefly from the ranks of the humble. Of the six or more men who now dominate the scene, only one—Prince Kimmochi Saionji, the Elder Statesman—was born an aristocrat. The others are self-made men, the stories of whose rise suffer nothing by comparison with noted American examples.

Premier Makoto Saito, son of a retainer of a feudal lord, was once a page in a government office. General Sadao Araki, the War Minister, began at a little soya bean sauce factory. The Finance Minister, Viscount Korekiyo Takahashi, born of a poor court artist and a parlor maid, first worked as a cup-bearer at a Buddhist temple and then as an indentured farm laborer in California—a job that was little better than slavery. A poor stone cutter was the father of Koki Hirota, Foreign Minister, while Mitsuru Toyama, the leader of the most notorious of the reactionary ronin bands, was still poorer, and had at one time to accept assistance from Hirota's family.

No less remarkable is the fact that most of these active leaders of a youthfully vigorous people are advanced in age. Only Araki and Hirota are younger than threescore and ten. The former is 57 and the latter 55, but Prince Saionji is 84; Finance Minister Takahashi and Mitsuru Toyama are each 78 and Premier Saito is 75.

Prince Saionji, the sole aristocrat among them, is the greatest democrat of them all. His title of Elder Statesman (Genro) is based on nothing more substantial than tradition; yet it makes him, in times of stress, the Emperor's chief adviser and personal representative. Saionji, in his long span of life, has witnessed a complete political cycle in Japan. He saw feudalism break down and, as the commander of an armored samurai unit, helped to restore the power of the Emperor, which through the centuries had been usurped by the military rulers, the Shoguns.

Saionji saw constitutionalism established in Japan and helped to set up the Parliament. He assisted the rise of the party system and later became president of the Seiyukai party. He spurred his country on toward democracy by helping Takashi Hara to become the first Prime Minister of common blood. But he has also seen heavy assaults upon the representative system that he fostered and in his eighty-third year he had to step in, after the assassination of Premier Inukai, to preserve it by rejecting reactionaries and choosing for the Premiership another upholder of parliamentarism, Admiral Saito.

The life of the Elder Statesman has resembled that of a story-book prince. A member of a family of courtiers of the most ancient lineage, he started his career as a monarchist of the romantic type by dashing, armor-clad, to the capture of castles. As a reward,

the youth was raised to the office of Prefect, but he had felt the adventurous stir of Japan's Golden Age and quickly put away this dignity to join the ranks of the young men hastening to the Occident to taste its strange, new civilization. Saionji chose France and that country so suited his alert and vivacious temperament that he remained there for ten years, studying and parading the boulevards with young radicals, including the late Georges Clemenceau.

Back in Japan at the age of 33, he at first found readjustment to the stricter atmosphere difficult. For a year he daringly blazoned his radical ideas in his newspaper, the *Oriental Liberal.* Soon, however, he yielded to the pressure of conservative friends, gave up journalism and entered politics. In the three following decades he held nearly a score of the highest posts, ultimately becoming Premier for two terms.

Theoretically Saionji retired in 1914, when he gave up the leadership of the Seiyukai. Actually this was only the beginning of a new period of usefulness, which has not yet ended. Summoned by the Emperor in 1916 for a conference, together with the three remaining Elder Statesmen, he was from that time counted among them. Now, only he remains. Throughout these years so boldly has he stood out as a champion of democratic institutions that he was one of those marked in 1932 for assassination by patriotic reactionaries. But he escaped, to set the tottering parliamentary system on the forward road again. Little wonder that, as long as Saionji sits quietly in his villa beside the sea at Okitsu, awaiting any call by the Emperor, the liberals of Japan feel that any setback they receive must be but temporary.

Premier Saito, whose calm is as proverbial as the Roosevelt smile, is also a defender of the parliamentary system. When the world seems topsy-turvy and excitement is high, there is Saito, still cool and unperturbed. His very bearing dissipates feverish fears and restores confidence. For a Premier, Saito is relatively little mentioned in the press, for he prefers it that way. Seldom does he make public addresses or give interviews; seldom does he talk much, even to his own Cabinet. He listens, smoothes over differences, calms anger and adjusts conflicting views. In the end, when he does have his say, he cuts straight to the heart of the matter, winning general respect.

Soon after Saito took office the press began to complain that he had no definite program for the country's finances, for farm relief, for the next naval conference, for anything. The speedy end of his Cabinet was being predicted before it had even settled down to work. But now, how changed is the tone! Acclaimed on all sides for his "natural gift for inaction," the Premier is credited with having brought popular emotions more or less under control, with having tided the nation over the danger of a *coup d'état* and with having given a new lease of life to representative government.

Though Saito is an Admiral and former Minister of the Navy, he shuns wearing the uniform or in any other way causing people to think of him as a man of arms. His methods, too, are the antithesis of those usually regarded as military. He handles people not by commands, prohibitions and threats, but by friendly reasoning.

It was this trait that took the Koreans by surprise when in 1919, soon after serious uprisings, he became their Governor General. The

Koreans, thinking of his title of Admiral, expected him to continue the military methods that had aroused discontent from the moment of annexation to Japan in 1910, but on the very day of Saito's entry into Seoul to assume his duties the eyes of the Koreans were opened to the character of their new chief. As the official procession rolled through the streets from the station toward the government offices, a Korean pushed his way to the front of the hostile throng and hurled a bomb at the Governor General's carriage. There was a thunderous explosion and members of Saito's mission fell wounded. But Saito was unharmed and unshaken. Maintaining his calm and kindly demeanor, he ordered his driver to continue; all along the line of the procession he saluted the Koreans with an unchanged air of friendliness and affability.

His administration continued in this spirit, and when, ten years later, he retired, he left a country in which his sympathy had brought about a progress that had been regarded as impossible. These same healing qualities are now aiding Japan itself in the present period of crisis.

General Araki, War Minister in the Saito Cabinet, is primarily a spiritual leader, resembling some austere St. Francis more than an ambitious Napoleon. As far as genius for command in the field and for organization are concerned, a half dozen of the Japanese Generals who conducted the recent Manchurian campaigns are undoubtedly his equal, if not his superior. But at a time when materialistic civilization had begun to weaken the "native Japanese spirit," Araki sprang from relative obscurity to summon the nation to the ideals of the old samurai—blind loyalty, disdain of wealth and ease, and love of danger.

Soon after the fighting broke out in Manchuria in September, 1931, the army exhibited considerable unrest and discontent, especially over the Cabinet's "weak" policy of seeking to limit conquest. Then it was that the name of Araki, commander of a division at Kumamoto, occurred to the military leaders, who saw the need of a new mental and spiritual discipline. They remembered him as the soldier-evangelist who, some years before as president of the Military College, had instilled his spiritual message in the young cadets.

Araki soon won over not only the rank and file of the military forces, but most of the public as well. He is no polished orator, but he is an intensely earnest one, and his doctrine of ascetic sacrifice for the national family and the Emperor "father" was what the masses wanted to help them bear both their military and their economic deprivations.

Frank and direct himself, Araki despises politics, with its evasions and quibbling. He and the other military leaders, because of their desire to eliminate politicians and to dominate the nation, have been likened to the arrogant officer class of Czarist Russia and Imperial Germany. But the resemblance is only superficial, for the German and Russian officers represented privilege while the Japanese are drawn mostly from the lower grades on the economic scale. Their desire to control Japan's government arises not from personal or class ambition, but chiefly from the wish to relieve the distresses of their own families. The epitome of this purpose is Araki, and symbolic of his method is the samurai sword he wears.

Takahashi, the Finance Minister, is a man of infinite variety. The greatest of his gifts, however, is revealed by the fact that he has held

his present post six times. He has a cheerful way of rejecting demands on the Treasury and an indifference to his personal fortunes that disarm those whom he denies. But he has also a reputation for ability to raise huge sums of money which goes back to an incident during the Russo-Japanese War.

Early in the war, before Japan had won a single important battle, Takahashi was sent, as Vice Governor of the Bank of Japan, to the United States and Europe to obtain loans for Japan. All his efforts in New York proved futile and he went to London. One evening he found himself seated at a banquet beside Jacob Schiff of Kuhn, Loeb & Co., but Takahashi knew nothing of Schiff's connections. In answer to Schiff's questions, however, he painted a glowing picture of Japan's military situation. The next day he was amazed to receive word that his troubles were over, for by his eloquence he had unknowingly won the aid of a great New York banking firm. This miracle of financing carried him along the road that led to the Premiership, a post which he held for only a short period because the necessary political bargaining was distasteful to him.

Takahashi, nevertheless, distinguishes between his own tastes and the welfare of the nation, for he is, in the government of today, one of the firm believers in the necessity for resisting all attempts to substitute a permanent dictatorship for Parliament.

Foreign Minister Hirota, a foe of the militarist dogma of "Japan-against-the-world," is offering a new deal in Japanese diplomacy. To accept isolation as inevitable he believes is perilous and costly. There need be no "crisis of 1935," he insists, if Japan takes the initiative in smoothing out her differences with other nations. His policy assumes that much of the tension in Japan's foreign relations has come because of waiting for issues to arise rather than anticipating and preventing them.

Hirota's plan to stress a policy of conciliation has won the Cabinet, and the demands of the army and navy for funds have been scaled down nearly a third. This extrication from the military leading-strings in foreign policy has encouraged the Japanese liberals, while it has not brought the outcry that might have been expected from the ultra-nationalists. Few men besides Hirota could have attained this result, but his career has been marked by so strange a mixture of influences that he inspires confidence in divergent political groups.

In Hirota strong emotions are restrained and turned to practical ends by realism. At the start of his life intense loyalty to the Emperor drove him into the rabidly nationalistic Genyosha (Black Sea Society). While he was yet a high school boy, he was aroused by the refusal of the European powers to permit Japan to occupy the Liaotung Peninsula as one of the spoils of her victory over China. He felt Japan's leaders had shown weakness in facing the Western powers and determined, in youthful fashion, to follow a diplomatic career himself in order to insure that Japan should not again lack aggressiveness. Little did he foresee that one day, as Foreign Minister, he would not be hardening, but softening, Japan's attitude in dealing with the West.

Once in the foreign service Hirota pushed himself upward at a tremendous pace, spending not only his hours on duty, but his time for leisure as well, in becoming an expert in the languages and affairs of the countries

where he was stationed—especially China, Great Britain, the United States and Russia. From the first his brilliance was so apparent that his superiors often remarked that here was a man on his way to the chair of the Foreign Minister.

By practicing the austerities of Zen Buddhism he moderated his intensity and by close association with the leaders of a half dozen foreign countries he dissipated the intolerance of his early ultra-nationalism. Thus, by the time he reached Moscow as Ambassador in 1930, he so well combined force of character with a sympathetic and friendly manner that he quickly cleaned the slate of disputes that seemed insoluble. This, Japan's most difficult diplomatic post, was his final preparation for his appointment as Foreign Minister.

An important, semi-official influence is wielded in Japan by Mitsuru Toyama, the undisputed boss of the ronin. These advocates of direct action are usually identified abroad as political roughnecks, and foreigners are mystified in trying to reconcile Toyama's patriarchal and dignified appearance with a position assumed to be little more than that of a glorified gang leader. But this is to underestimate the place of ronin in Japanese life. "Why, what's wrong about the ronin?" the writer Ippei Fukuda quotes the noted Count Itagaki as saying. "But for this much-abused class of men, the Meiji restoration would no doubt have fallen through, and what the consequences of the failure might have meant to us is not a pleasant speculation." And though there are, as Fukuda says, "good sorts as well as bad," all ronin are beneficiaries in some degree of the reflected glory of the famous "Forty-seven Ronin" of Ako. To this day these retainers who avenged the death of their lord in feudal times, and paid for it with their lives, are held by the public in deepest veneration.

Thus the ronin, singly or in great groups such as the Black Dragon Society that Toyama now heads, may be considered a sort of unofficial and self-ordained Department of Justice, keeping watch lest the nation's dignity be offended, and holding out the threat of death to those it deems responsible. So powerful is the Black Dragon Society, and so acceptable to public opinion as a useful part of the social order, that Toyama's home has long been an inviolable sanctuary for certain persons wanted by the police. Only last year a Buddhist priest suspected of being involved in assassinations found immunity there for weeks.

High officials have found it profitable to listen to the advice of Toyama, and futile to try to buy him off. A Foreign Minister, it is said, once offered him about $125,000 to leave Japan, to which he replied that he would gladly take the money, but would neither leave Japan nor modify his opposition. But despite the frequent violence and death for which younger ronin have been responsible when the political play was not to their taste, the most strenuous efforts of the police have not sufficed to find Toyama himself directly involved. Because Toyama has been a friend of Koki Hirota since the latter's boyhood, the present government is likely to be freer from ronin pressure than any other in recent years.

Predictions of a Fascist régime may thus be discounted while Japan remains under the liberalizing influence of Prince Saionji and the steadying hand of Premier Saito, with Takahashi keeping a realistic check on the budget, and with Foreign Minister Hirota comparatively free to try his faith in international cooperation.

Fading Glamor of the South Seas

By Marc T. Greene

[Mr. Greene, an American journalist, has visited the islands of the Pacific many times during the past fifteen years, making long stays on some of them and touching others while on trips with trading schooners.]

The economic depression became apparent in the Pacific islands later than in the rest of the world, though during the past three years troubles have followed thick and fast, sweeping through the islands with something like the devastating force of a South Seas hurricane. This has intensified numerous political problems and sometimes has become closely associated with them.

Immediately after the World War a boom era prevailed over the Pacific. Copra, the economic mainstay of the South Sea Islands, sold during the war at approximately $200 a ton, an unheard-of figure, and even at that price the supply hardly equaled the demand. Cocoa, another staple, brought in the islands a top price of more than $400 a ton, while other products —pearl shell, vanilla, coffee and fruit —were at a premium. For example, vanilla bean, produced chiefly in Tahiti and the other French islands, brought real wealth to Europeans, natives and Chinese alike.

Such was the situation until about 1926. Meanwhile, the natives became familiar with aspects of the white man's civilization hitherto unknown to them. With the proceeds from the sales of copra, cocoa, vanilla and pearl shell they bought talking machines and mechanical pianos, installed radio sets and even experimented with automobiles in places where there were no roads and but a mile or two of beach on which to run them. They abandoned comfortable thatch houses for corrugated iron shacks, and scorned healthy native foods while money was available for the purchase of corned beef and canned salmon. In the French islands, where there is little or no restriction on the sale of alcohol to natives, much of the newly gained wealth was dissipated in carousing.

Western Samoa offers an excellent example of the new situation. Friction between the sensitive, high-spirited islanders and the New Zealand Mandatory Administration has been continuous ever since the British flag replaced that of Germany in Upolu and Savaii. The mandate has been characterized by many blunders, resulting from inexperience in colonial administration rather than from any ill-intent on New Zealand's part. The League of Nations conferred the mandatory administration of Western Samoa upon Great Britain, and she in turn entrusted it to the Dominion whose eyes for years have been on the islands. Perhaps Great Britain, judging by the success of her administration in the neighboring Fiji and other groups of islands, could herself have handled the delicate Samoan situation more satisfactorily.

In Samoa there are but three exports—copra, cocoa and bananas. Here, as in all the other islands from New Guinea to the Marquesas, the price of copra began to fall in 1927

and it has been falling ever since, until today its top price is nowhere more than half a cent a pound, and in Samoa is only half of that. Thus the native grower is paid only about 25 cents for a bag of 100 pounds—the product of several cocoanut trees, shelled, properly dried—an intricate process in itself—bagged and brought to the market, the whole operation requiring a couple of days' labor. Obviously, under such conditions, there is no profit in producing copra.

Cocoa now brings less than $150 a ton throughout the South Seas, and at such a figure no man, white or native, can grow it except at a loss. Few are trying to, in Samoa or elsewhere, and from one side of the Pacific to another planters and traders have gone bankrupt, plantations have been abandoned, soon to be reclaimed by the fast-growing tropical jungle, and many once-prosperous men have become beachcombers—persons existing in some mysterious fashion without any visible means of support.

In Tahiti, where for more than half a century harmonious relations have existed between the easy-going natives and the French, hard times are also beginning to cause unrest. Tahiti, in some ways, has been even harder hit than any of the other islands. A year ago the large trading establishment of Kong Ah went into bankruptcy and carried with it not only a number of smaller concerns but even the heretofore unshaken Chinese Bank of Chin Foo, a house with which most of the Americans and British in the French islands did business. Kong Ah failed after a hundred small Chinese traders throughout French Polynesia could not collect from the thousands of natives to whom they had extended credit and who could not pay their bills because the market for copra had slumped and that for vanilla had disappeared entirely. Probably not 10 per cent of the Chinese firm's accounts, running into millions of francs, will ever be collected. In this collapse the Chinese bank was inextricably entangled.

The simple-minded natives once again insist that something must be wrong with an overlordship that permits things to reach such a pass. Of world conditions and all the contributing factors to the depression generally, and their inevitable repercussions from one end of the world to the other, the childlike Polynesian grasps little or nothing, even if any one tries to explain it. Like his somewhat more enlightened white brothers in far countries, he attributes his plight to the political power which rules him, and, also like many another in the same circumstances, he is "agin the government."

The white man in the South Seas, on the other hand, is probably worse off today than he has ever been in the history of the Pacific. The ranks of the beachcombers, depleted until a few years ago, are swelling because many are becoming tropical derelicts, picturesque in all but reality. Most of these individuals are the South Seas equivalent of the thousands in America and Europe whose "happy days" are but a poignant memory as they stand in the breadline or receive the dole. More than one formerly prosperous trader who has been driven into bankruptcy, or planter who could no longer sell what he produced, is to be found among the beachcombers. The various island administrations are extending some aid, especially to those who once held some official position, but there is nothing for the majority, who cannot escape from the islands if they would. And so there are coming to be those of whom you will hear it said in the

various ports, "He's gone bush," which means that the unfortunate has disappeared from the ken of the other Europeans to take up some kind of abode in the bush, existing no one can say how.

In the islands of the Western Pacific, the New Hebrides, New Guinea, the numberless adjacent isles, and on many a scattered atoll, white men—British, German, French, Dutch—have for many years been braving a hostile climate and, in some cases, even more hostile natives in the hope of accumulating enough money to enable them to return home and spend their latter years in comparative ease. Some, indeed, left before the troubles came, but more have fallen upon evil days, losing everything, their businesses bankrupt, their holdings unsalable. Now money is lacking to go home; the climate has sapped their vitality; they are "down and out" on a tropical beach. Perhaps nowhere in the world today, with all its woes, are there men in more grievous and pitiable estate. Of all the problems of the Pacific islands none is more cryingly acute.

There are political difficulties also. The singular administration of the great group of islands known as the New Hebrides has long been unsatisfactory. Officially entitled the Condominium—joint control by France and Great Britain—it is whimsically designated in the Pacific as the "Pandemonium." Administrative and legal machinery is divided between the two powers, the court being a mixed tribunal of three judges, one French, another English, and a third—a neutral—who is sometimes Spanish, sometimes Italian, sometimes Dutch, and once a Mexican. Thus frequent problems of interpretation arise, and often a Babel-like situation develops in which some one is sure to insist that Condominium justice is biased.

Despite the joint administrative arrangement, the New Hebrides are overwhelmingly French in population and sentiment, a fact increasingly irritating to near-by Australia. The Australians, at present uneasy about what they deem their "unprotected" geographical position, constantly seeing all sorts of spectres, especially the Japanese, feel alarmed because in the New Hebrides there are but a couple of hundred British residents, as against more than a thousand French. Moreover, since economic conditions in the New Hebrides are just as chaotic as elsewhere in the Pacific, the handful of British planters have become discouraged and are inclined to withdraw entirely. The French, on the other hand, have remained and are actually increasing in numbers. Australia believes that the French intend to strengthen their position in these islands economically and thus politically, and that secretly support is being given by Paris. Thus there is a growing demand by Australians that Great Britain strengthen her position as joint controller of the New Hebrides group, for strategic if for no other reasons.

The Melanesian natives who inhabit these islands, unlike the Samoans, are inarticulate. They have no one to present their cause to the world, to set forth their grievances, particularly against alleged French administrative oppression. But, like the similar natives of the former German colonies of New Guinea and the numerous adjacent islands, who are equally discontented with the Australian Mandatory Government, the Hebrideans' favorite manner of expressing resentment is to surprise a white man in the bush and promptly kill him. Incidents of that sort have happened with startling regularity.

The most successful and harmonious colonial administration of the many which exist south of the line has been that in the Fiji Islands. Yet this group was once considered hopeless. So keen an observer as Darwin, visiting the islands on the Beagle, wrote that "the Fijis are probably forever lost to civilization." But not many years after his visit, the islands came under British rule at the request of the king and his chiefs, the only group in the Pacific that voluntarily and without duress both asked for and accepted European control. Great Britain undertook a trust to which she has in every sense been true, administering the Fijis from London as a Crown Colony with satisfaction to everybody.

But of the Fijis, also, it is necessary to speak in the past tense, for a serious problem has arisen—that of the Indians who were brought to the islands to labor on the plantations and who have, even as the Chinese in Tahiti and the Japanese in Hawaii, remained to become economically, politically and even socially influential. For several years the Indians of Fiji, who now total about 30,000, have been demanding a larger and larger share in the government. Much has been yielded them for the sake of harmony —so much, indeed, that there has developed a strong sentiment among the white residents against further concessions. To grant the Indians equal representation on the Legislative Council with the whites would give them immediate political ascendency over the native Fijians. The slogan, "Fiji for the Fijians," to which Great Britain has always adhered, would thus become meaningless. The entire European community—traders, planters and the well-to-do British from all parts of the Empire who have settled in these pleasant tropical isles—is already up in arms against such a possibility. The British Government has been accused of pandering to the Indians of Fiji, whose unrest has undoubtedly been inspired from India, as a sop to anti-British agitators in Asia. This is a serious indictment, but it has been brought forward frequently since the election of a new Legislative Council in Suva and the announcement of a policy of leniency toward the Indian populace. "If England is bent on turning Fiji over to the Indians," declare the strongest critics of the government's policy, "there will be nothing left for the rest of us but to get out, and then heaven help the Fijians!"

Not far from the Fijis is the Tongan group, often referred to as the "only independent kingdom in the Pacific." It is, of course, independent in name only. The British consular agent is distinctly the power behind the little island throne, and financial, customs and other matters are in the hands of Europeans appointed by the Tongan Queen at the suggestion of the British representative. Nevertheless, the protectorate arrangement has worked well, and even yet, despite the fall in the price of island products, Tonga does not fail to balance its budget and to maintain a comfortable reserve fund, carefully invested in British securities.

The continued political tranquillity and economic stability of the Tongan Protectorate after twenty years, despite existing conditions in other Pacific islands, has revived the suggestion, first made many years ago by Sir George Grey, one of the greatest of British colonial statesmen, when he was Prime Minister of New Zealand, that a kind of political "Union of the Pacific" might possibly overcome many of the current difficulties. Such a union—only of the British isl-

ands, which, however, constitute by far the largest number—would resemble a protectorate. It would afford a large measure of autonomous government for all the islands, varying according to the proven capacity of the islanders for self-rule. It would be administered from London—and that alone would probably re-establish harmony in Samoa, whose people have clamored from the first for direct control by the British Government rather than by a Dominion.

Dominion administration in the South Seas has not been a success. New Zealand's troubles in Samoa, which culminated in the tragedy on Apia Beach in December, 1929, when a number of chiefs were killed in a riot, have been the subject of much publicity. Australia's troubles in Papua and in New Guinea are also well known. Not so much has been heard about the wretched fiasco of Norfolk Island, home of many descendants of the Bounty mutineers who are complaining bitterly about their treatment by the kind of Australians with whom the colony is being peopled. Even less has been heard about the poverty and discontent in the more remote groups and scattered isles.

The vision of a great Pacific union under a joint protectorate, which would include the French islands as well as the British, is perhaps a far flight of fancy, but long-range planning is desirable for the islands of the Pacific in this, the Indian Summer of their racial existence. Moreover, the all-important matter of reducing the governmental expenses, which directly or indirectly fall upon the islands themselves, would be vitally affected by creating a union. Economic stability could be achieved and political friction gradually ended.

Meanwhile, economic distress, political unrest and the advent of modernity in the shape of increasing hordes of tourists and avid seekers after cheap and easy living conditions have caused the South Seas of romantic fiction almost entirely to disappear. It has gradually dawned upon the natives, except in remote islands seldom visited by tourists, that in themselves and in their physical environment they have something salable to the white man. They have come to understand in a vague fashion what is meant by "atmosphere," and they have developed a surprising capacity for providing it, especially when a "de luxe" liner on a world cruise appears.

The essence of romance in the Pacific was a simplicity that was disingenuous and unsophisticated, and a carefree gayety that was spontaneous and unaffected. Little of either remains today, and even that little is doomed. Such characteristics were of a piece with the temperament of the pure-blood Polynesian, and there are few such left.

The visitor to the South Sea Islands today thus finds himself in the midst of a people of confusedly mixed blood and in contact with any number of penniless, broken-down, seedy Europeans, some of them "gone native" beyond redemption. It is not an attractive spectacle, and it sits depressingly upon the spirit of the seeker for the "color" of South Sea fiction and movies. The climatic charm and the scenic beauty of the islands are, of course, the same as in Stevenson's day, or, for that matter, in Melville's or Loti's. And with them the tourist must be satisfied. In fact, he should be forewarned that if he looks for more he will be disappointed.

A New Deal for New York

By JAMES A. HAGERTY

[The writer of this article has been a member of the news staff of *The New York Times* for many years during which he has acquired an intimate knowledge of New York City affairs.]

NEW YORK, the largest city in America and perhaps the largest in the world, is to have its New Deal. Sixteen years of graft, waste and corruption under Tammany rule have ended with the city on the verge of bankruptcy and with the threat of a breakdown in its social services. Unhappily the sins of former city administrations remain to plague the government of Fiorello H. LaGuardia, who took office on Jan. 1 after a popular revolt against Tammany Hall had swept from office most of the representatives of the old misrule.

In many respects New York is to America what Paris is to France. The city is a true cosmopolis. It is a great financial centre; its shops are the smartest in the land; the nation's literature, art, music and drama are concentrated in and regulated by New York; to a large extent the tone of American culture is fixed by New York taste, while the city's dwellers are admired, envied and disliked by the inhabitants of the provinces. New York, also, has been the alleged abode of the opportunity to get-rich-quick; certainly, by fair means or foul, great fortunes have been made on the Island of Manhattan and, because money has come easily in this city of wealth and ostentation, little regard in the past was paid to the amount or extent of corruption in its government.

Hard times and declining incomes, however, brought a change—extravagance in government had to be curtailed even as in private expenditures. No longer was graft a joking matter. Simultaneously, the existence of corruption along with graft was revealed by a legislative investigating committee whose counsel, Samuel Seabury, was an arch-foe of Tammany.

In 1929 Major LaGuardia had been defeated for Mayor by a plurality of 500,000 votes; seemingly his charges of Tammany graft, waste and corruption fell on deaf ears. Two years after the election Tammany, with James J. Walker as Mayor, appeared to be at the zenith of its political power. But then came the legislative inquiry. Before Mr. Seabury was through, Tammany stood revealed as guilty of even more than Major LaGuardia had charged against it.

An investigation of the magistrates' courts showed that Tammany district leaders had profited largely from their connection with politics, that gambling houses were operated in some of the Tammany district clubs, that corruption existed in the magistrates' courts, that women had been framed and railroaded to jail in disregard of law, and that unemployment relief frequently depended upon the favor of Tammany district leaders. The climax of Mr. Seabury's investigation, however, was the disclosure that Mayor Walker had received large sums of money from friends and that mysteriously large bank deposits had been made by Russell T. Sherwood, who never could be

produced as a witness, but who was alleged by Mr. Seabury to have been Mr. Walker's agent.

The revulsion against Tammany was immediate; resentment was intensified by the general pinch for money at a time when taxes of all kinds were mounting. Legal difficulties and the great interest in the Presidential election prevented a real drive against Tammany in 1932, but the strength of the anti-Tammany feeling in the municipal election was shown by a vote of 262,000, "written in" on the voting machines, for Joseph V. McKee, President of the Board of Aldermen and Acting Mayor.

Judge O'Brien, the successor to Mayor Walker, encountered difficulties all through his administration, for "the Tammany chickens of the last seven years of the Walker administration all came home to roost." The city ran short of money; the bankers were reluctant to make further loans; "payless pay days" were threatened almost continually. Important business groups, aiding the bankers, demanded drastic municipal economies, including the abolition of positions declared to be unnecessary, and so the O'Brien administration was forced to put into effect a series of graded pay cuts, ranging from 6 to 25 per cent, though it steadfastly refused to abolish jobs to any considerable extent, since, from the viewpoint of Tammany leaders, the Tammany vote bears a direct relation to the number of jobholders.

At their wits' ends to find money to meet payrolls and unemployment relief payments, the O'Brien administration offered a tax program which only added to its unpopularity. First was proposed a tax on automobiles, already taxed by New York State, and bridge tolls on automobiles entering the city. This proposal aroused such vehement opposition that it was abandoned without enactment.

A second program, which was passed by the Municipal Assembly but which ultimately proved ineffective, included a five-cent tax on taxicab fares, an increase of 50 per cent in water rates, a tax on stock transfers and brokers, a temporary tax on public utilities and a tax on the assets of savings banks and insurance companies. But the taxi levy was declared invalid, the new water rates were scheduled for repeal before becoming effective and the tax on stock transfers was dropped when the great New York Stock Exchange seemed ready to carry out its threat to move to Newark, N. J. Finally, when the banks agreed to purchase $70,000,000 in city bonds the levy on their assets was suspended. These abortive efforts to make the city's outgo match its income by increasing taxes instead of by cutting expenditures excited New Yorkers, stimulating a hostility to Tammany that continued until the election in November, 1933.

Meanwhile, the elements among the voters opposed to Tammany, sensing the chance of winning the election on the issues of Tammany graft and mounting taxes, were trying to agree on a candidate. After considerable manoeuvring Major LaGuardia, with the approval of Samuel Seabury, who naturally took an important part in the campaign, was selected as the candidate for Mayor of the Republican and anti-Tammany forces, allied as the Fusion party.

Born in New York City of Italian parents, Major LaGuardia during his public career has demonstrated his courage, honesty and ability. He has been a member of the national House of Representatives, a service which was interrupted by a two-year term

as President of the New York City Board of Aldermen, during which he gained an intimate knowledge of the city's government and problems. Returning to Congress later, LaGuardia won a reputation as one of the most independent and useful members of the House. Although nominally a Republican, his party ties have always been loose, and in 1924, because of a temporary break with his party leaders, he was denied renomination by the Republicans but was elected as the candidate of the Socialist and Farmer-Labor parties.

The feeling against Tammany among the voters was so strong and belief in its mismanagement of the city's affairs so firmly grounded that reiteration and amplification of the disclosures of the Seabury investigation proved to be unnecessary. The election was a landslide for Major LaGuardia and the Fusion city ticket. With LaGuardia were swept into office the other two city-wide candidates for the Board of Estimate, Controller W. Arthur Cunningham and Bernard S. Deutsch, President of the Board of Aldermen, and three of the five Borough Presidents. Only in New York County, which is identical with the Borough of Manhattan, was Tammany successful. There its candidate for Borough President was elected and control of the county offices, including the important office of District Attorney, was retained. Though the Fusionists failed to elect a majority of the Board of Aldermen, the Democratic Aldermen are divided between those paying undivided allegiance to Tammany and those belonging to, or leaning to, the Roosevelt wing of the local Democracy.

Immediately after election, Major LaGuardia announced his retirement from party politics during the four years for which he had been elected and declared that his administration and appointments would be wholly on a non-partisan basis. His selection of department heads, popularly termed the members of his "Cabinet," confirmed this announcement. Perhaps the most striking choice he made was that of Professor A. A. Berle Jr.—an original member of the Roosevelt Brain Trust—for City Chamberlain, an office with few duties and scheduled for abolition. Professor Berle will thus be available as an adviser on policies. In most of his other important appointments Mayor LaGuardia was guided in his selections by close personal acquaintance or particular fitness for the posts.

The LaGuardia administration entered office confronted with great problems which were not of its own but of Tammany's making. The O'Brien administration had with difficulty met its last payroll and had found the money for earlier payrolls only by an agreement with the bankers by which the city virtually mortgaged its receipts from real estate taxes for the next four years. Major LaGuardia declared that his administration necessarily would be bound by this agreement. Under it, in exchange for first liens on its real estate tax income, the city received assurance from the bankers of the early refunding of approximately $200,000,000 of outstanding short-term obligations, the creation of a revolving fund of $207,000,000 to provide for tax-anticipation needs for the next four years and a guarantee that the banks in cooperation with savings banks and insurance companies would purchase $70,000,000 in ten-year serial bonds to be issued for unemployment relief.

Besides pledging the segregation of all real estate tax payments during the next four years, the city agreed to set aside approximately $24,000,-

000 in the 1934 budget and up to $50,-000,000 each year in the budgets of 1935, 1936 and 1937 as reserves to meet tax delinquencies. The city also promised to hold the tax levy on real estate for each of the four years to a maximum of $270,000,000, plus debt service needs, thus definitely limiting the tax on real estate, which is the chief source of municipal revenues.

Such limitations on the city's finances will, of course, handicap the LaGuardia administration in carrying out its program. There is a further difficulty in that authority must be obtained from the State Legislature for much that has been proposed. But the new Mayor seems determined to carry out his principal points which include:

1. An appeal to the Legislature for authority to reopen the city budget, adopted by the preceding Tammany administration, for the purpose of balancing it. This authority is vital for Mayor LaGuardia's economy program by which he expects to cut from $25,-000,000 to $50,000,000 from the present $551,000,000 budget and to abolish approximately 10,000 city jobs.

2. Settlement of the city's troublesome transit problem by unification of the subway and elevated lines. Mr. LaGuardia began negotiations with representatives of the transit companies before his inauguration and it is his idea to fix a price and method of payment for the companies' properties and to settle the fare question afterward. The city is now paying approximately $25,000,000 a year in interest on bonds issued for subway construction. Unification, with a self-sustaining fare, will relieve the city of a burden that its present financial situation has made virtually insupportable. Mayor LaGuardia has given every indication of having the courage to face a situation which he has inherited from a series of Tammany adminstrations and to treat the problem as a business and not a political matter, even if it means the abandonment of the traditional five-cent fare.

3. Appeal to the Legislature for a revision of the city charter to bring about economies and to improve the machinery of government by abolishing unnecessary boards, bureaus and departments. Among those scheduled for abolition is the Board of Aldermen, the lower House of the Municipal Legislature, over which Tammany still exercises a somewhat shaky control.

4. Reform of the city magistrates' courts, possibly by legislation ousting the incumbents, and a drive by the Police Department against gangsters and racketeers. This part of the new administration's program is not only in the public interest, but is intended as a blow at Tammany by breaking up the alliance alleged to exist between the underworld and minor politicians of that organization.

Mayor LaGuardia also intends to improve the public school system, to reorganize the city hospitals, to work out a housing policy and to adopt a definite, comprehensive city plan to guide its future growth. He has a definite suggestion for obtaining money from the RFC on the security of delinquent taxes and, even before taking office, had secured from the Public Works Administration a loan of $23,-160,000 for the completion of the Eighth Avenue subway.

One of Mayor LaGuardia's major battles will probably be fought over revision of the city's charter, a fight which will involve the State Legislature, since the Democratic Board of Aldermen, the concurrence of which is required by the only other method for altering the charter, would hardly be expected to vote for a program which included its own destruction. The Dem-

ocrats have a majority of one in the State Senate, but since the Republicans, who control the Assembly, are torn by internal dissensions, there is the possibility of a deal with the Republican Old Guard faction which might enable Tammany to block the passage of a charter-revision bill.

Mayor LaGuardia and his associates, backed by Samuel Seabury, will, however, fight for the charter changes they want, and it is quite likely that if they fail at this session of the Legislature the Tammany Assemblymen and Senators from New York City will be opposed next Fall by Fusion candidates committed to charter revision. Failure of the charter revision program will reinvigorate the anti-Tammany movement, and the very life of the city's old political organization may be at stake.

In New York City there are now anti-Tammany Democrats in three organized groups, two of which are composed entirely of Democrats and one of which includes members of all parties and none. The Democratic groups are the Recovery party, which, in last November's campaign, supported Joseph V. McKee for Mayor and which has kept up its organization in many Assembly districts, and the Knickerbocker Democrats, who owe allegiance to Samuel Seabury, an independent Democrat, and to Langdon Post, a member of the LaGuardia cabinet. The third organization is the City Fusion party, which includes in its membership Democrats, Republicans and independents. These three groups are united in their hostility to Tammany, and if they could combine the elimination of Tammany as the regular Democratic organization in Manhattan might be accomplished.

The future of Tammany is likely to depend on the success or failure of the LaGuardia administration. If the administration is unsuccessful or fails to retain the confidence of the public, the Tammany Tiger, crippled but not as yet vitally wounded, may go back four years hence into City Hall. If LaGuardia carries out his program and wins popular approval, the Tiger might not survive the starvation of another four years, for Tammany is an organization that admittedly feeds on patronage and lives and grows fat mainly by its ability to dispense favors.

Mayor LaGuardia has determined to give the city the best administration of which he and his associates are capable, but to friends he has expressed belief that this method is not likely to win him re-election. Approving his determination, these friends have disputed his deduction, for he has won his present place by his willingness to fight for what he has thought right without regard to the immediate effect on his political future. For him to take another course now would be out of character and impossible. In public life, re-election often comes to those who seek to do what they believe is best in spite of personal consequences and often fails to come to those whose official acts are performed with an eye to a second or third term.

Many of Mayor LaGuardia's supporters believe that, as he has been the man to break the stranglehold of Tammany on the city government, he will be the man to keep the Tiger from the fleshpots again when his present term ends. In any event, Mayor LaGuardia and his associates seem determined to stick to their purpose of extricating the city from its present difficulties by providing an economical, honest and efficient administration and postponing all worry about re-election until the next Mayoralty campaign in 1937.

America's Consumption of Power

By HAROLD WARD

[Mr. Ward has contributed articles on scientific and technological subjects to several periodicals.]

THE United States Bureau of Mines has no gift for rhetoric. Its reports make absolutely no appeal to those who live in a world of fantasies, dream-logic and wishful thinking. Their concern is with facts—all the facts that can be obtained about the mineral resources of one of the wealthiest geographic areas on the face of the globe. Romance, for the energetic and exceedingly capable investigators on the bureau's staff, consists in finding ever more precise answers to the questions, "What have we got?" "How much is there?" "What quantities are being used, and at what cost in time, energy and money?" And the answers throw new light on forces in American life.

Let us first consider the part played by coal in what has been called our mineral civilization. The American coal mining industry is one of the most bitterly competitive and badly organized production systems in the world. Falling prices, diminishing profits, excess stocks, labor troubles, unemployment, mechanization, and the growing use of other fuels—all have helped to undermine the once impregnable authority of King Coal. Nevertheless, so great is the vitality of this Monarch of Power that a 1932 decrease (compared with 1929) in output of 42.9 per cent is well above that of automobiles, at 75 per cent, and of steel, at 76 per cent. The loss is also appreciably less than the Federal Reserve Board's index of a 46 per cent decline in industrial production since 1929.

A condensed statement of what has happened to American coal during the past four years is presented in the following table. Unless otherwise noted, all 1929 figures are derived from the United States Census of Mines and Quarries. The Bureau of Mines' 1932 figures, although incomplete, indicate a clearly established trend. The percentages in the third column are computed:

	1929	1932	Change Per cent
Number of collieries and mines.	5,923	5,642	— 5.0
Wage earners (yearly average) ..	601,533	379,565	—36.8
Wage earners, per mine	101.6	69	—32.1
Total coal produced, short tons.	610,687,531	355,567,000	—41.8
Coal produced per day	1,673,116	971,389	—41.8
Coal produced per mine	103,104	63,021	—38.8
Coal produced per wage earner	1,015.22	936.77	— 7.7
Coal produced per capita of population.	5.8	2.8	—49.1
Total value of coal produced ..	$1,338,423,751*	638,000,000	—52.4
Employment index	100	67.4‡	—32.6
Wages index	100	35.6‡	—64.4
U. S. percentage of total world coal produced	35.4†	20.6	—41.8

*World Almanac, 1932 issue.
‡Bituminous coal industry.
†Bureau of Mines, 1933 Year Book.

The most significant thing about this table is the item "Coal produced

per wage earner." The decline of only 7.7 per cent in production per wage earner shows that his efficiency was little impaired by the disastrous conditions in the coal fields. In the bituminous industry the wage earner's production fell only 7.1 per cent, yet the index shows that his wages have been slashed 64 per cent since 1929. It is also worthy of note that in 1932 miners worked on an average of 145 days, as compared with 160 days in 1931, and an average of 213 days for the three decades ending in 1921. Daily coal production per worker has slowly crept up from 3.8 tons in 1918 to 5.4 tons in 1932, according to figures recently given by Dr. Alexander Sachs.

Turning again to the Census of Mines and Quarries, we find that during the twenty years ending in 1929 the power rating of American coal mines increased by 118 per cent, electric power amounting to more than twice that of all other prime movers combined. This made it possible to extract 33 per cent more coal by an increase in the working force of less than 9 per cent. Anthracite and bituminous mines in 1929 were equipped with over 80,000 prime movers delivering a total of more than 4,000,000 horsepower; this is equivalent to about seven horsepower per worker, as compared with three horsepower in 1909. Since wages account for from 60 to 65 per cent of the costs of production, it is clear why a competitive industry struggles so desperately to answer the riddle of "more goods at lower costs and higher prices thrown on markets saturated with everything but purchasing power."

Mechanization of bituminous underground operations in 1932 alone, according to the Bureau of Mines, accounted for a yield of 36,000,000 tons. This was a sharp decline from the record figure of the year before, but impressive enough when compared with the less than 2,000,000 tons produced in 1923. Coal loaded by power shovels in strip pits amounted to another 19,000,000 tons of bituminous, while in anthracite mining, in addition to 2,500,000 tons handled by self-loading contrivances, 1932 saw the installation of cleaning equipment with a capacity of nearly 2,500 tons per hour. Walter Polakov has shown that in the one operation of bituminous coal cutting the percentage done by machinery grew from 38 to 75 in the twenty years to 1929. Nor has the depression markedly interfered with this trend. In seven out of ten leading States coal operations were more highly mechanized in 1932 than in the year before, Montana taking the lead with a percentage of 76, a 10-point increase in one year.

Consider now certain drastic reductions in the ratio of coal to other fuels used in transportation and industry. Oil, always an excellent lubricant for inclines, here enters the picture. Thus, although locomotives of Class I railroads in 1932 consumed 12.5 per cent less fuel oil than in 1931, coal consumption dropped six points further, to 18.5 per cent. Ships in foreign trade used 14.9 per cent less oil, but 38.5 per cent less bunker coal. The recent rise in the price of fuel oil to $1.20 a barrel, adding $3,600 to the fuel cost of a single transatlantic passage for a ship like the Majestic, will inevitably affect this rate. For electrical central power stations coal consumption dropped 21.8 per cent and only 1.9 per cent for oil; even natural gas, another competitor for electric power patronage, fell off more than coal in 1932. Hydroelectric power, lately offering its cheap kilowatts to Southern communities through the Tennessee Valley Authority and Muscle Shoals, supplied 41 per cent of

public utility needs, compared with only 35.6 per cent in 1929.

Still another threat to coal is fuel efficiency—the amount of fuel consumed per unit of work. In transportation, 176 pounds of bituminous coal were consumed for every 1,000 gross ton-miles of railroad freight hauled in 1917; by 1932 this had dropped to 123 pounds. This is no small item when it is remembered that American railroads consume about one-fourth of the entire bituminous coal output of the country. In the same period the amount of coke required per ton of pig iron by American blast furnaces had been reduced by over 500 pounds. At the 1917 rate of consumption, 1932 pig iron production would have required nearly 2,250,000 tons of coke in excess of what was actually used, or about double that amount of bituminous coal.

In the twenty years ending in 1929, according to F. G. Tryon and H. O. Rogers, technical improvements and administrative economies have effected, for all industries and railroads combined, a reduction of 33 per cent in the amounts of fuel consumed per unit of product or service. The two highest reductions, of 66 and 40 per cent respectively, were accomplished by electric power plants and steam railroads. "Stated in another way," to quote the estimate made by Tryon and Rogers, "had there been no advance in thermal efficiency during the twenty years and had the efficiencies of 1909 continued without change, American business would have consumed 210,000,000 tons more bituminous coal in 1929 than were in fact required."

In view of this and many similar facts, to say nothing of what the Statistical Bureau of the League of Nations terms "the contracting spiral of world trade," it is not surprising that there are in the United States at the present time nearly 1,500 idle coal mines, with a potential capacity about equal to the saving just indicated, or more than twice the present annual coal consumption of France, and about four times the 1932 coal production of Soviet Russia. Over 250 of these mines ceased operation in 1929, thus adding 30,000,000 tons to America's gigantic coal reserves. Yet, even if the United States leads the world with a 42 per cent decline in coal production since 1929, nine other countries in Europe and Asia show decreases ranging from 14 per cent (France) to 39 per cent (Canada). Soviet Russia, on the other hand, has increased coal production by 48 per cent in the same period.

Coming now to oil. Of the total of about 800,000 wells drilled for oil in the United States since 1859, a little over 300,000 were producing in 1932. Although the total production for that year was 8 per cent less than for 1931, or just under 800,000,000 barrels, three American wells, on the basis of a statistical year-average of nearly 2,500 barrels per well, could have accounted for more than the total daily production of oil in Japan and Formosa combined. On the basis of population, oil production in the United States in 1932 was at the rate of 6.25 barrels per capita; Russia and Venezuela, the two next ranking producers, yielded 0.91 and 35 barrels per capita respectively. These 6.25 barrels of crude oil, treated in one way, would give to each inhabitant of the United States an energy equivalent to that locked up in something less than one ton of bituminous coal; treated in another way, they would yield about 120 gallons of gasoline, about 5 gallons less than the actual per capita consumption of motor fuel in 1932. The difference between consumption and production was made up from large stocks of refinable oil in storage

(over 300,000,000 barrels at the end of 1931) and, strange to say, by imports during the year of more than 40,000,000 barrels of crude oil alone. Nevertheless, the 15,500,000,000 gallons of gasoline consumed in the United States in 1932 was a 7 per cent decrease from the year before.

Important in the development of oil as a fuel is the increasing use of oil-driven units in transportation. Apart from marine engines of the Diesel type, which are rapidly displacing coal-burners, we are hearing more and more of the oil-driven rail-car and Diesel-engined automobiles. Regarding the latter, one English manufacturer reports that more than 3,000 of his oil-driven automotive units are at present traveling on the roads of the world. The total mileage to date is estimated at about 120,000,000, equivalent to some 2,500,000 miles per week—and this for the products of one company alone. It is not surprising that England should be thinking seriously about converting a large part of her diminishing coal reserves into oil by hydrogenation or carbonization processes. Then there is the growing interest of American railroads in the new "stream-line trains," most of which will be hauled by oil or gasoline engines. This means the scrapping of millions of tons of obsolescent equipment and ultimately—no small detail—a further body-blow at the coal industry, affecting operators and employes alike.

But, so far at least as power goes, it is all to the good. Some idea of the enormous energies made available in this country by coal, oil and its by-products, natural gas and water power can be obtained from the following table compiled by Tryon and Rogers. The abbreviation "B. T. U." refers to the "British thermal unit," the engineer's standard for the measurement of energy. It is defined as the amount of heat required to raise the temperature of one pound of water by one degree Fahrenheit. The figures are for the year 1932:

	Trillion B.T.U.'S	Pct.of Total
Anthracite	1,342	7.5
Bituminous coal	8,008	44.9
American oil	4,691	26.3
Imported oil	268	1.5
Natural gas, total production	1,632	9.1
Water power, fuel equivalent	1,900	10.7
Total	17,841	100.0

The above total of nearly 18,000 trillion B. T. U.'s includes the energy consumed by prime movers used for automotive transport (passenger cars, trucks, tractors, buses and so forth), as well as for all heavy and industrial uses. From this enormous figure we can get some interesting comparisons with the human energy consumed by the inhabitants of the United States.

Dividing the total of extraneous energy by the population (125,000,000) we arrive at 142,728,000 B. T. U.'s as the share of every man, woman and child during the year 1932. Converting that total into the kilogram calories customarily used to measure physiological energy (1 B. T. U. equals very nearly a fourth of a kilogram calory) we get a figure of 35,882,000 kilogram calories of extraneous energy per capita per year. This works out to 98,309 kilogram calories per day for every inhabitant of the country.

Adopting Sherman's standard of an average daily energy intake of 3,000 kilogram calories for an adult male living under American conditions, the above total of extraneous energy represents the daily sustenance requirements of 32.6 adult individuals. In other words, to have accomplished by human labor alone (assuming the feat to be possible) all the work done in the United States by power-driven

prime movers would have required the maintenance of a population over thirty-two times the actual one, or a density of 1,300 persons to the square mile.

In terms of actual work performed, however, a properly nourished adult male seldom exceeds a rate of 0.1 horsepower on an eight-hour basis. So we can also express the figure of 98,-309 kilogram calories by saying that every inhabitant of the United States disposed of a work capacity 32.6 times that of his or her average output, or 3.26 horsepower per eight-hour day. As an instance of what mechanical power means in relation to human beings, Professor Charles Cross points out in a technical monograph, *Heat Engines,* that "to generate 5,000 horsepower for eight hours per day would require 50,000 men. If a floor space two feet by four feet be allotted to each man, 400,000 square feet would be necessary. This would require forty stories in a building one hundred feet square, or over nine acres of ground."

The above figures represent 1932 energy consumption only. What then are we to say of the nearly 27,000 trillion B. T. U.'s consumed in the United States during the peak year of 1929? By the same methods of conversion, that gave to every inhabitant the energy equivalent of over 150,000 kilogram calories per day, representing the sustenance of fifty adult slaves per capita, or about three times the total population of the globe. After that, it is not difficult to understand how, on the basis of its installed horsepower, the United States has been responsible for 50 per cent of the world's physical work. And a decline in energy consumption during the past four years of nearly 33 per cent may help to explain some of the mysteries lurking in the phrase, "standard of living."

How the energy factor has come to dominate modern civilization is further illustrated by the following statement issued by the Department of the Interior: "The estimated output of nearly 80,000,000,000 kilowatt hours of electric power for the United States in 1927, if it could be converted into equivalent man-power, would provide the average family of about four persons in the United States with the services of eleven able-bodied mechanical laborers, working eight hours daily, including Sundays and holidays, at a total cost for the eleven of about $75 a year."

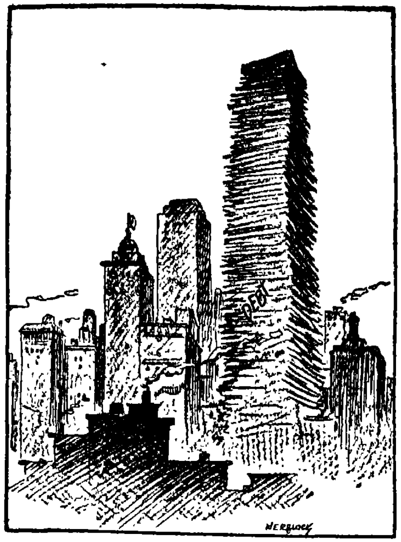
Whatever way we look at it, there is every indication that when Columbus finally called attention to a new world whose existence he never recognized himself, he discovered not the continent of gold for which he was looking but the continent of power—something much richer in promise of good, if rightly managed, or of evil if not.

Current History in Cartoons



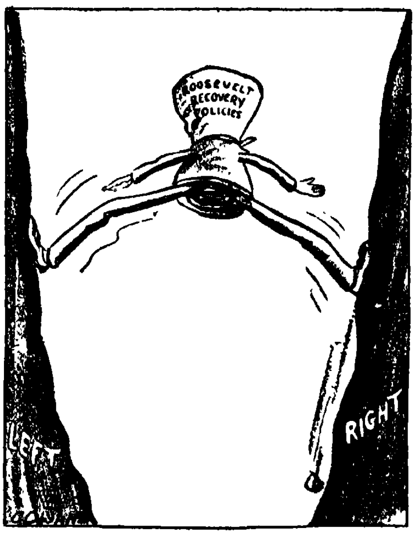
But then we can't see much from where we're sitting

—Philadelphia Inquirer



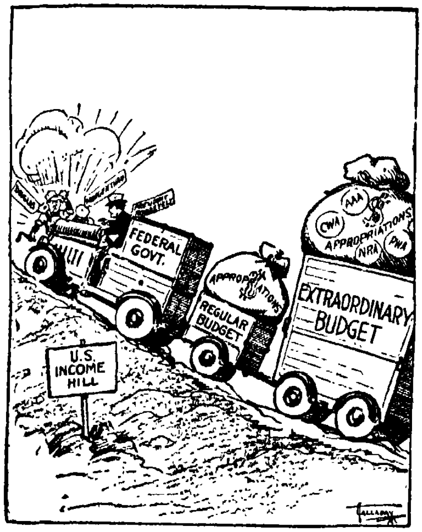
An American city skyline

—Raleigh News-Observer



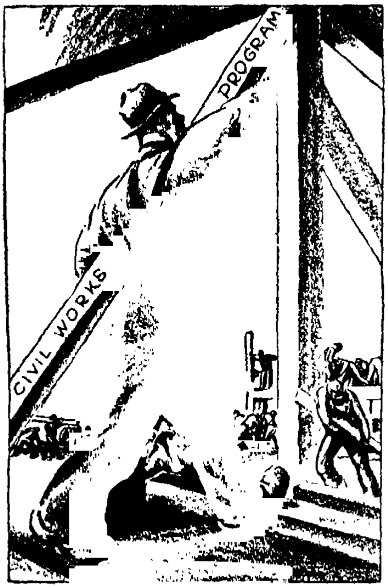
Some day there will have to be a decision

—Boston Evening Transcript



Too much of a load

—Providence Journal



Regenerating the American working-man

—*St. Louis Post-Dispatch*



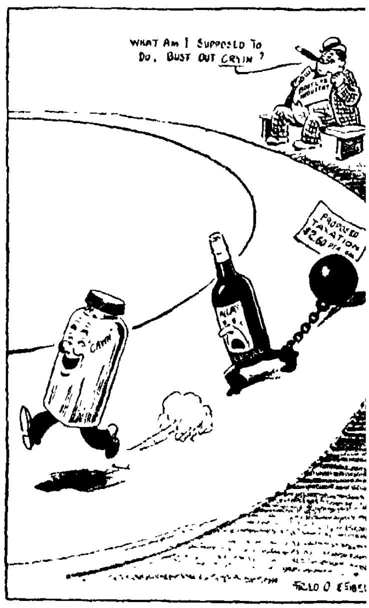
Breaking the ice

—*New York Herald Tribune*



The very eggs he was throwing

—*St. Louis Star-Times*



Handicapped

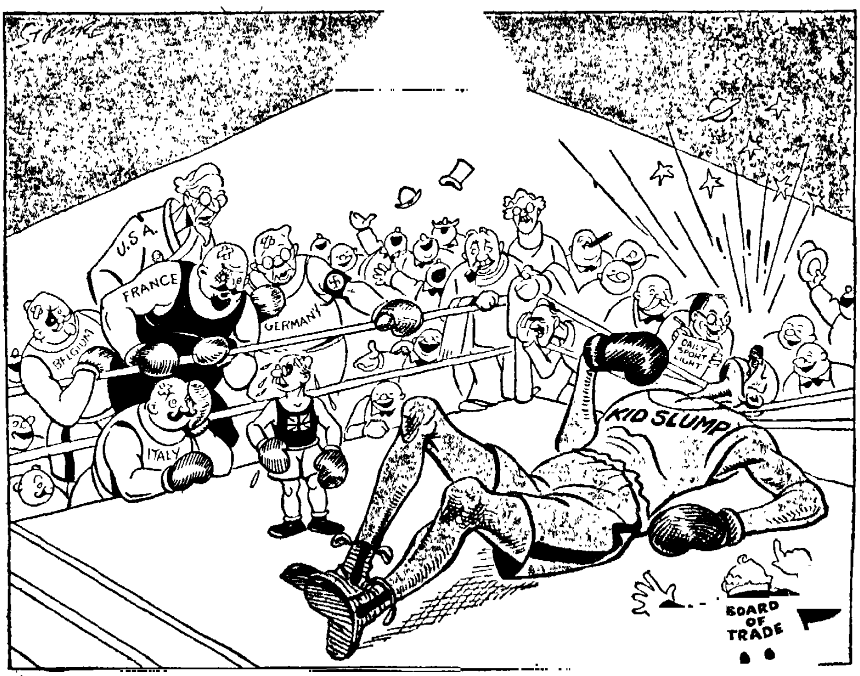
—*Richmond Times-Dispatch*



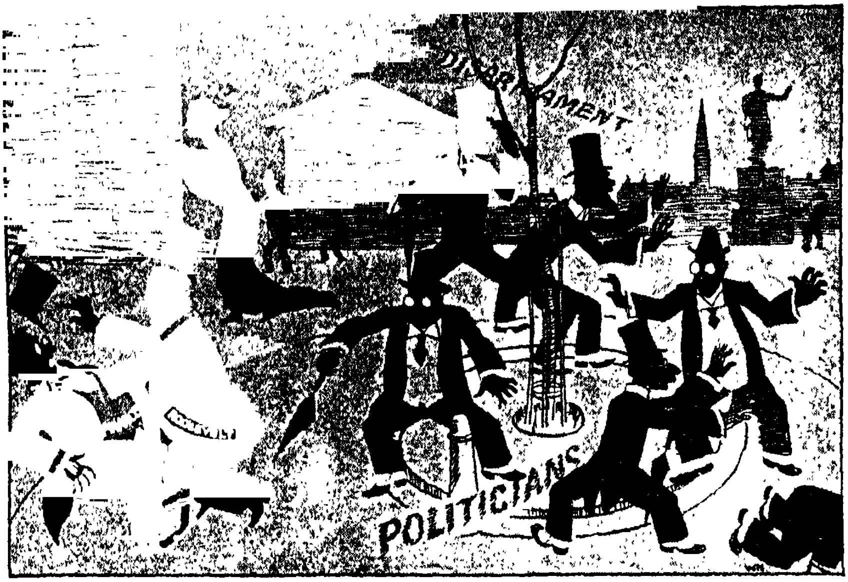
Shake!!—and then?
—Baltimore Sun



Not in here, Herr Hitler
—Columbus Journal-Dispatch

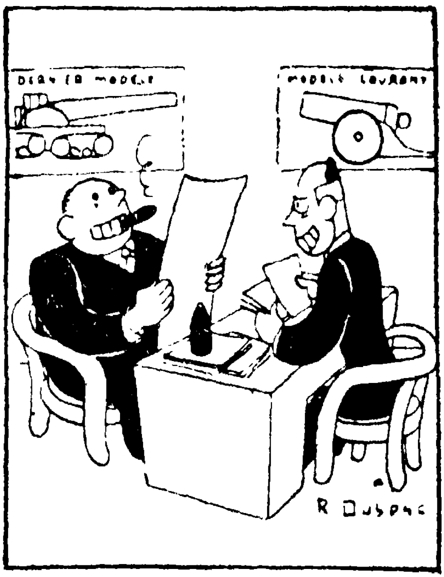


Chorus of foreign champions: "How is it you can do that and we can't?"
The little champion: "Why, it's just an old British custom!"
—Daily Express, London



We are beginning to despair of getting out of the fog!

– *Glasgow Bulletin*



"I think the Disarmament Conference will soon come to results"

"Yes, we have already received some orders"

—*Humanite*, Paris



Old before his time

-*Philadelphia Public Ledger*

A Month's World History

International Economic Issues

By ALLAN NEVINS
Professor of American History, Columbia University

DURING the last two months of 1933 the focus of international interest tended to shift from political affairs and return to a normal concentration upon economic, commercial and financial topics. Disarmament fell into the background as men realized that no immediate progress was possible. The uneasy talk of war in Europe died away. Certain events in the sphere of world finance seemed more important than anything else.

An indication of the future trend of American monetary policy was afforded by trustworthy reports that the United States had begun conversations with Great Britain upon a possible stabilization of the dollar with the pound. President Roosevelt was reported to be satisfied with the results of his manipulation of the dollar and content to let it rest for the time being at its present gold value of about 62 cents. But to suggestions of stabilization at the existing figures the British Government proved hostile. One reason was that British officials apparently feared that the strong inflationary elements in the American Congress might render any agreement signed with President Roosevelt unstable. They also argued that the dollar, as it affected British trade, was still too high, and that instead of $5 the ratio should be about $4 to the pound sterling. It was suggested in London that rather than try to relate the dollar to the pound, the United States should stabilize the dollar itself, possibly by a return to a gold standard modified to suit commodity prices. This the United States was not ready to do.

The reasons why Great Britain does not press for early settlement of the currency question were stated in a recent speech by Neville Chamberlain in the House of Commons. According to the Chancellor of the Exchequer, the depreciation of the dollar has not yet proved a menace to British trade. It has in fact been a boon to the textile manufacturers of England, for they have purchased their raw cotton in the United States at bargain prices. Mr. Chamberlain pointed out that should Great Britain begin to suffer from the dumping of cheap American goods, she still possesses an excellent defensive weapon in the tariff.

Meanwhile, however, a genuine and growing resentment is felt by British merchants against Japan, which has been able with her depreciated yen to capture a larger business in cotton textiles than ever before. Japanese ships are carrying cargoes in Eastern waters that formerly went to the Brit-

ish merchant marine. In the House of Commons these facts were hotly discussed, and it was alleged that Japanese manufacturers have a habit of forging British trade-marks. Indignation was simultaneously being expressed by Italy, where the press printed acid editorials on "Japanese dumping." If Japan does not come to a fairer trading level, new tariff barriers will almost certainly be raised against her.

An extraordinary device to stimulate trade has been used by Germany for the last six months and is now the target of vigorous protests from other nations. Under the partial moratorium which the Reich decreed on her foreign debts last June, Dr. Hjalmar Schacht, president of the Reichsbank, has worked out an ingenious system by which Germany's creditors are made to contribute to her foreign trade. The holders of medium-term and long-term obligations receive their interest half in cash and half in scrip. Creditors can sell their scrip to the German Gold Discount Bank through banking syndicates in their own countries. For their scrip, however, they receive only one-half its face value. The scrip is then resold to exporters in Germany and they may use it to buy goods at its full value. Germany has explained to her creditors that the amount she can pay depends on the amount of foreign exchange she receives from her exports, and by this arrangement their interest is therefore served!

Creditors were given further cause for complaint when Dr. Schacht several months ago made an arrangement with Switzerland and Holland by which creditors in those countries received the entire interest due, without deduction, on the stipulation that they buy an increased quota of German goods. When other countries protested against this discrimination Dr. Schacht bluntly declared that a similar arrangement was open to them. None has cared to enter into it.

On Dec. 5 a committee of foreign creditors went to Berlin to discuss with Dr. Schacht the terms of the partial moratorium for the six months beginning Jan. 1, when the previous regulations were to expire. John Foster Dulles, the American representative, suggested to the president of the Reichsbank that Germany was well able to pay her creditors in full. To this Dr. Schacht brusquely replied that on the contrary Germany would again have to reduce her payments. Eleven days later he announced, quite arbitrarily, a reduction in cash payments from 50 per cent to 30 per cent. To justify this act, he explained that Germany's export trade surplus was much less than it seemed—that although, according to the figures, it appeared to be 65,000,000 marks a month, ample to continue the 50 per cent cash payments, actually the greater part of this represented payments in scrip, blocked marks and depreciated German bonds. He firmly denied that he was diverting foreign exchange to buy back depreciated German obligations at bargain prices. The only saving the Reich had made, he said, was in the devaluation of foreign currencies. Because of this the foreign indebtedness of Germany had been reduced by 4,000,000,000 marks (about $1,500,000,000 at present exchange).

In a world of shifting and shifty financial standards one clear stand has recently been made for the sanctity of contracts. In London on Dec. 15, the Law Lords, who are a judicial committee of the House of Lords and in such matters Great Britain's highest court, rendered a decision on the

validity of the gold clause in bonds which was hailed as establishing a notable precedent. In this case a British owner of gold bonds issued by the Société Intercommunale Belge d'Electricité appealed from the decision of a lower court, which contended that the company had the right to pay interest in paper pounds. The depreciation in the pound has enabled the company to save itself almost 65 per cent of the cost of coupon payment in gold. The Law Lords reversed the lower court and established the bondholder's right to receive payment in gold. From this decision there is no appeal.

MUSSOLINI ON THE LEAGUE

The attempt of Premier Mussolini to refashion the League of Nations encountered so much opposition last month that it was halted almost as soon as it was brought before the world. According to a declaration of the Fascist Grand Council in Rome, Italy would remain in the League on condition that it be radically "reformed." Although the Grand Council made no specific suggestions in regard to this reform, the Fascist leaders freely furnished information about what Mussolini had in mind. He demanded: (1) The divorce of the League from the Treaty of Versailles; (2) transformation of the Council into a super-committee of the great powers which shall dominate the decisions of the League; (3) abolition of the rule of unanimity in the Assembly whereby small nations are able to block the demand of powerful nations; and (4) reform of the League's finances. Two main objects were obviously to be achieved. The League was to be divested of its democratic form, which in Mussolini's opinion makes it an impractical agency of international action. And the abolition of the rule of unanimity, together with the severance of the League from the Versailles treaty, would open the way for treaty revision.

As soon as the nature of Mussolini's proposals became known the small nations of Europe arose in unanimous protest. The peace treaties have been beneficial to them, and they cannot look with equanimity on any plan to redraw the map of Europe. The League is their bulwark, and they prize it as giving them in certain matters an equality with large nations. Joseph Paul-Boncour, Foreign Minister of France, taking a similar position, pointed out that the League is the custodian not only of the peace treaties but of all treaties made since the war and declared: "France has no intention of permitting any harm to the League."

Even Germany, which has generally aligned itself with Italy, dashed cold water on Premier Mussolini's scheme when a government spokesman observed that "Germany did not abandon the League to reform it but because of its impotency to deal with the problems assigned to it."

Mussolini's greatest hope was placed in the British Government, which admits the need for revision of the League Covenant. Great Britain, however, refused to be entangled. The government suggested that the proposal was untimely in view of the greater importance of disarmament discussions, and placed responsibility squarely upon the Italian Premier by hinting that it was up to him to advance a tangible plan. Having thus tested public opinion, Premier Mussolini appeared to retire into his shell. His expectation that prospective revision of the League to meet American and Russian objections would interest those countries was also doomed to

disappointment. Maxim Litvinov, the Soviet Foreign Minister, paying a brief visit to the Premier on his way home from the United States, was said to have flatly rejected the proposal. The United States was almost completely indifferent. The net result of Mussolini's criticism of the League was a closer union of France and her Eastern allies—the Little Entente and Poland.

DISARMAMENT

The three-cornered diplomatic negotiations between France, Germany and Great Britain, to establish some kind of Franco-German agreement as a basis for direct conversations on disarmament, came to a fruitless end in December. Adolf Hitler's proposals, which remained unpublished during the entire course of the secret negotiations, became known in their entirety when Ambassador François Poncet transmitted them in written form to his government. They may be thus summarized: (1) That Germany be allowed a standing army of 300,000 men conscripted for one year; (2) that she be permitted a quota of "defensive" armaments equivalent to one-quarter of the similar arms possessed by France, Poland and Czechoslovakia together; (3) that there be equal international control of armaments in all countries, including Germany's 2,500,000 Storm Troopers; (4) that the Saar Territory, which Germany claims, be disposed of by negotiations between France and Germany without waiting for the League plebiscite set for next year; (5) that Germany offer a guarantee to keep the peace embodied in a ten-year Franco-German non-aggression pact. Appended to Hitler's proposals were three pungent questions which France was requested to answer: What was the date on which France expected to begin disarming? What kind of disarmament would it be? How much would it amount to in figures?

Nothing could have been better calculated to arouse the ire of the French General Staff than these last inquiries. As Hitler must have realized, nothing could better point out to the world at large that France has a powerful militaristic element that stands grimly against yielding up a single rifle.

As for the proposals themselves, the French Government objected at once that not one was acceptable and that hence nothing advanced by Hitler was a possible point of departure for direct Franco-German negotiations. The Foreign Affairs Committee of the Chamber of Deputies almost unanimously condemned the suggestion that Germany be allowed to increase her standing army from 100,000 to 300,000 as a "consecration of German rearmament." The non-aggression pact was seen as a measure calculated to supersede and invalidate the Locarno pact, which guarantees the inviolability of the Franco-German border. Soon after the French Cabinet had taken up the Hitler proposals Sir John Simon arrived in Paris. To him Hitler's demands seemed not unreasonable, and he urged upon M. Paul-Boncour and Premier Camille Chautemps the importance of compromise. These gentlemen, their resolution stiffened by the French General Staff, resisted his advice. Like a good lawyer, Sir John was obliged to withdraw as gracefully as possible, with professions of sympathy for the French point of view. The French reply to Germany was categorical and definite. To Herr Hitler's questions France answered candidly that she would maintain her military strength to the limit of her ability.

The President Faces Congress

By E. FRANCIS BROWN

THE New Year in the United States opened with a feeling of restrained hope, a tempered optimism that was reflected in President Roosevelt's first annual message to the Seventy-third Congress. So much had been experienced by the American people during the preceding twelve months that it was difficult to recall the gloom in which 1933 had been greeted; certainly 1934, despite the prevailing economic uncertainties, found people more light-hearted, and not wholly because they were celebrating the first New Year since prohibition repeal.

In the late Autumn, when the administration's recovery efforts seemed to be losing their effect, there were general forecasts that "hell would break loose" as soon as Congress convened. But by the time the session opened on Jan. 3, the situation had altered. Whatever lurking hostility to the acts of the administration there might be, was subdued; the Republican minority had no organized plan of opposition, and dissidents within the President's own party were unprepared to criticize openly. Under the strain of the session this apparent harmony may be jarred, but at the moment it existed, reflecting the prestige and popularity which the President enjoyed throughout the nation.

Allowance must be made, of course, for Mr. Roosevelt's own pleasing personality, but his real strength was rooted in the accomplishments of the first ten months of his administration, a record which naturally formed the backbone of his report to Congress on the state of the Union. Appearing before a joint session of the House and Senate on Jan. 3, President Roosevelt delivered a message filled with optimism and hope. There were no specific requests for legislation, no detailed surveys of what has been accomplished; instead the President's words were designedly inspirational, addressed to both Congress and the people.

The philosophy of the New Deal, which colored every phrase of the message, was particularly apparent in the President's reference to the recovery program. "Viewed in the large," he said, "it is designed to save from destruction and to keep for the future the genuinely important values created by modern society. * * * But the unnecessary expansion of industrial plants, the waste of natural resources, the exploitation of the consumers of natural monopolies, the accumulation of stagnant surpluses, child labor and the ruthless exploitation of all labor, the encouragement of speculation with other people's money, these were consumed in the fires that they themselves kindled; we must make sure that as we reconstruct our life there be no soil in which such seeds can grow again."

Though the President couched his survey of the nation in general terms, Congress is likely to question more specifically what has been taking place in recent months. For example, banking, the first problem that faced the Roosevelt administration, has remained in an unsatisfactory state,

largely because the system as a whole has not been thoroughly overhauled. Banks have been reopened; yet when a final reckoning comes, several thousand national and State banks will probably have disappeared. At the special session of Congress last Spring only minor reforms were effected by the banking bill, of which the most striking feature was the guarantee of all bank deposits of $2,500 or less.

When deposit insurance became effective on Jan. 1, about 14,000 banks were eligible for membership in the Federal Deposit Insurance Corporation. But many of them—3,883, according to a statement on Dec. 28 of the chairman of the RFC—had qualified only through the sale of preferred stock or capital notes to the RFC. About $736,000,000 in government funds had been poured into the banks through this channel. Deposit insurance has been generally criticized as likely to lead to unsound banking, while the purchase of bank stock by the RFC has involved the government further in the banking business without any attempt being made to establish a sound system. Perhaps in the end the government will have to own the banks and admit the fact. Possibly a definition of policy will be forthcoming before Congress adjourns.

The remainder of the Roosevelt program, with a few exceptions, has aimed specifically at economic recovery, including improvement of both industry and agriculture. So much has been written and said of the NRA and its goal of bringing order out of the traditional industrial chaos that little remains to be added. There has, however, been a significant change in sentiment toward the NRA and its works. In the beginning, industrialists by and large opposed the act; now they recognize its benefits, except for the weapon of collective bargaining it puts in the hands of labor. On the other hand, small manufacturers and storekeepers have begun to realize that under the NRA they are placed at a disadvantage. Increased overhead, especially in the form of labor costs, threaten many smaller concerns with extinction, so that eventually—it is arising already—opposition to the NRA can be expected to come from the ranks of the still forgotten man. Senator Borah, for example, even before Congress assembled, expressed concern for the plight of the small business man under the NRA.

But the NRA, by recognizing the inevitability of business combination and association, actually did little more than sanction economic tendencies long apparent. That these tendencies do work, and have been working, against small-scale enterprise may be unfortunate, but in the long run it is undoubtedly wiser to accept than to resist them. The difficulty is that under capitalism it becomes almost impossible to regulate any business for social purposes, as the Roosevelt administration has been discovering.

At the Capitol one can expect also to hear discussion, even if not debate, upon labor's status under the NRA. Industry dislikes collective bargaining, while many labor leaders feel that the now famous Section 7(a) is too weak, too much a mere expression of a pious hope. Furthermore, the National Labor Board by its slowness to act and its evident desire to avoid a court test of the National Industrial Recovery Act has seemingly permitted some concerns to flout both the act and the board's authority. The clash with the Weirton Steel Company is a notable case in point.

The Weirton Steel Company and the

National Labor Board agreed last October that a strike in the company's plants should be called off and that in December an election of representatives of labor for collective bargaining should be held by the company under the supervision of the National Labor Board. The strikers accordingly returned to work, but on Dec. 11, on the eve of the election, Ernest T. Weir, chairman of the company, refused to abide by rules drawn up by the Labor Board for the election. Although Senator Wagner, chairman of the board, informed Mr. Weir that he had "interfered with the choice of representatives of your employes in violation of Section 7 of the National Industrial Recovery Act" and General Johnson telegraphed the steel man that "in my opinion you are about to commit a deliberate violation of Federal laws," the Weirton election proceeded on Dec. 15 under company "supervision," and resulted in a victory for the company union.

Whether or not the National Labor Board would eventually take the Weirton case to the courts, the board's failure to uphold its position created a bad impression upon labor. This case, the most striking among several of the kind, stirred an uneasy feeling in many minds that the NRA was giving business everything and labor nothing. In such a mood it was difficult to remember that the NRA had practically wiped out child labor and sweatshops and established a minimum wage and a shorter working day.

Industry has known government regulation of a sort for more than a generation and a half, but agriculture has been truly the refuge of rugged individualism. During the second half of 1933, however, the farmer was at last brought within the orbit of government control. The AAA, with its definite program for restricting acreage in the production of staple crops, its processing taxes on farm products and its supervision of farm exports, inaugurated a revolution that may in the end be far more important to America than the codification of industry. Nevertheless, that conditions in the farming regions have not yet improved sufficiently for them to be ignored by the Seventy-third Congress, was disclosed by the Bureau of Agricultural Economics on Jan. 5. The index of farm prices on Dec. 15 was 68, compared with 71 on Nov. 15 and 49 in February; but the index of prices paid by the farmer was 118, compared with 117 on Nov. 15 and 100 in March.

The administration, in addition to its basic measures, has sought to end abuses in security issues through the much-attacked Securities Act of 1933; it has tried, seemingly without great success, to refinance home and farm mortgages in order to relieve property-owners of their debt burdens; and it has, by monetary experimentation, attempted to raise commodity prices and to establish a new and sounder currency. In all these measures, as well as in some like the Tennessee Valley Authority, which are only incidentally related to recovery, there has been a social purpose, a human touch that has given the Roosevelt administration a hold on the popular imagination and affection unparalleled in recent history.

Yet it must be admitted that the administration has played a shrewd political game which has insured it overwhelming support in Congress. In the past six months, whenever dissatisfaction has appeared menacing, some means of allaying it has been found which was not wholly unrelated to recovery policies. For example, unrest in the farm areas has been quieted by crop "loans" for which the farmer in

return pledged curtailment of his production in the next year or two. But these loans, or subsidies, uncharitable observers regard as little less than subtle bribes for indirect support. Much the same can be said of the administration's move on Dec. 21 in ratifying an international silver agreement which provided for government purchase of virtually all the silver mined in the United States, half to be coined and half to be deposited in the Treasury. Such a step removed from the ranks of Congressional inflationists the Senators and Representatives from the silver-producing States.

Finally, though it would be cruel to consider it a political manoeuvre, there can be no doubt that the relief to unemployment afforded by the Civil Works Administration has further entrenched the President in the hearts of his people. Because the public-works program seemed to be failing as the stimulus to industrial expansion for which it had been created, and unemployment remained at an alarming level, despite business improvement, the CWA was established to put men to work on all sorts of projects for which, in many instances at least, there was no real economic justification. With the $700,000,000 at the command of the CWA, 4,000,000 men were given work at a wage of about $15 for a thirty-hour week.

Though obviously an emergency measure, the CWA embodies the most revolutionary implication of any step taken by the Roosevelt administration. By assuming responsibility for the support of several millions of its citizens it has suggested that it would be feasible to enroll every citizen for employment on a government project at a stated wage. Furthermore, the redistribution of wealth contemplated by the CWA is far more striking than that consequent upon the distribution of foodstuffs by the Federal Surplus Relief Corporation.

The PWA itself has distributed funds for so many different projects that criticism, possibly investigation, may be unavoidable. Furthermore, the early lethargy in allotting money for public works defeated the real purpose of the program as a spur to recovery. Finally, suspicion that allotments have been obtained in some instances as a result of political pressure is sure to keep Congressional attention focused on PWA.

With popular sentiment regimented behind the administration, what was the exact economic situation which Congress faced? That there had been considerable improvement, there could be no argument. *The New York Times* index of business activity touched a low point of 47.9 for the week ended March 18, 1933; it rose rapidly thereafter to a high for the year of 99.0 for the week ended July 15; then it dropped slowly until it reached 72.5 for the week ended Nov. 4, rising during the following weeks to 79.6 for the week ended Dec. 30. For the corresponding week in 1932 the figure was 70.6. *The Annalist* index of commodity prices which stood at 80.5 for the week ended March 3, 1933, averaged 104..8 for the month of September, although by the week ended Jan. 2, after many small fluctuations, the figure had fallen to 102.4. For the corresponding week in 1932 the index was 83.8.

Employment, similarly, has changed for the better. Though American figures have never been much more than estimates, it seems fairly certain that at least 14,000,000 were without work in March, 1933. In November, according to the American Federation of Labor, the number was 11,000,000, an increase of 500,000 over October. Secretary Perkins attributed the rise

to seasonal factors, but that there should be no improvement was disappointing, especially since the country had been led to expect vast re-employment as a result of the NRA.

Reports of Christmas trade from all over the country indicated that the large amount of money put into circulation by the CWA, the agricultural loans, the public works program and the Tennessee Valley Authority were not without effect. When added to higher farm prices and greater industrial activity, it is not surprising that many trading centres reported the best retail trade, in both physical volume and money, since 1929.

But there were deep shadows also in the American picture. Business had improved, but there were still millions out of work. Can our system ever absorb the battalions of the unemployed? If not, and there is a growing belief that it cannot, what then? The stupendous cost of the recovery program cannot be borne indefinitely, even if temporarily a nation like the United States can stand up under a Federal debt of $23,534,115,771, the total at the end of November.

How costly the recovery program has been and will be was disclosed in the President's amazing budget message sent to Congress on Jan. 4. Never has an American Congress listened to so frank a statement of government expenditures as did the Seventy-third when the President set forth the greatest peace-time spending program in the nation's history, a program which entails an estimated deficit of $7,000,000,000 for the fiscal year ending June 30, 1934, and $2,000,000,000 for the fiscal year 1934-35. These sums would bring the national indebtedness to $31,834,000,000—an all-time high.

Though there has been criticism of the practice of an ordinary budget for regular government expenses and an extraordinary budget for emergency measures, the President stilled those protests by setting forth the facts of both budgets. For the current fiscal year the ordinary budget of $3,533,691,767 (including $488,171,500 for debt retirement) is practically in balance since revenues are estimated at $3,259,938,756. But the extraordinary or emergency budget is a far different thing. Appropriations either made or asked for this purpose total $6,357,486,700 and the President added that $1,166,000,000 more would be necessary before the end of the fiscal year, bringing the total of expenditures over receipts to more than $7,000,000,000.

Another aspect of this situation was touched upon when the President said: "In order to make clear to the Congress what our borrowing problem is for the next six months, permit me to remind you that we shall have to borrow approximately $6,000,000,000 of new money and, in addition, $4,000,000,000 to meet maturities of a like amount."

Emergency expenditures for the fiscal year ending June 30, 1934, exclusive of additional sums which will be necessary, were listed as follows:

Public Works Administrat'n	$1,677,190,800
Agricultural Adjustment Administration	103,250,000
Farm Credit Administration	40,000,000
Emergency conservat'n work	341,705,600
Reconstruction Finance Corporation	3,969,740,300
Tennessee Valley Authority	19,000,000
Federal land banks	52,350,000
Federal Deposit Insurance Corporation	150,000,000
National Industrial Recovery Administration	4,250,000
Total	$6,357,486,700

For the fiscal year ending June 30, 1935, total government expenditures were estimated at $3,960,798,700, of which $3,237,512,200 belongs to the

ordinary budget. Since revenues for that year are estimated at $3,974,665,-479, there should be a small surplus, provided further emergency appropriations are not necessary. But they will be.

"It is clear," the President said, "that the necessity for relief and recovery will still be with us during the year 1934-35. Additional relief funds will be necessary. Further needs of the country prohibit the abrupt termination of the recovery program. No person can on this date definitely predict the total amount that will be needed, nor the itemizing of such an amount. It is my best judgment that a total appropriation of not to exceed $2,000,000,000 will, with the expenditures still to be made next year out of existing appropriations, be sufficient."

After pointing out that estimated revenues did not take into consideration new income that would be likely to accrue from a revised income-tax law or from liquor taxes, the President appealed for continued economy in government operation. He insisted that "the good credit of the government" is the cornerstone of the "foundation of confidence in the present and faith in the future."

The size of the budget surprised—one may even say staggered—members of Congress as well as the people of the country. A budget of $5,000,-000,000 or $6,000,000,000 had been expected; few had anticipated that the figure for the current year would exceed $10,000,000,000 and for 1935 about $6,000,000,000. Yet, after the first shock, the country as a whole accepted the spending program with equanimity, and Congress proceeded with its affairs. In the House the first business related to the liquor tax bill, carrying a basic levy of $2 a gallon on distilled spirits. Though the Senate adjourned over the week-end after the reading of the budget message, one of the first matters before the upper chamber was the approval of appointments, including that of Henry Morgenthau Jr., who was sworn in on Jan. 1 as Secretary of the Treasury, following the acceptance of Mr. Woodin's resignation.

When Congress begins to consider all that has been done since its adjournment last June, many aspects of the recovery program are more than likely to be questioned. Possibly attempts will be made to amend the National Industrial Recovery Act; certainly there is legislation in the offing which will affect many phases of our economic life.

In this regard the railroads stick out like a sore thumb. For years the roads were nursed along by an indulgent public; of late the government has assumed that responsibility, having by the end of 1933 advanced $386,-955,000 to the roads through the RFC. Of this sum, only $56,798,000 had been repaid while $51,780,000 was in default. Some repercussion from these loans was expected should there be any debate over extending the life of the RFC beyond Jan. 22, the date when it was legally due to expire. The railroads, in addition, have received loans amounting to $100,000,000 from the PWA and further extensions can be forecast in 1934. Even with the net operating revenue of the Class I railroads estimated to be 16 per cent greater than in 1932, the condition of the nation's railway system is deplorable. Heavily mortgaged to the government, the roads with but few exceptions are ripe for thorough reorganization, if not the government ownership that labor has begun to demand.

In the weeks preceding the opening of Congress, rumors alternately de-

clared and denied that the Securities Act would be revised, that important banking legislation would be introduced, that the President would seek the power to approve tariff agreements with foreign nations, that there would be bitter debate on monetary policy and so on. Perhaps all these subjects as well as the recovery measures would be under fire, but one thing was sure: there would be a hot fight in Congress over the proposed Tugwell Pure Food and Drug Bill.

Considering the far-reaching nature of much of the legislation enacted by Congress in the Spring of 1933, a proposal to strengthen the existing Pure Food and Drug Law would not seem very extreme. Yet the Tugwell Bill, on which hearings were held by a Senate subcommittee during December, would give the Secretary of Agriculture almost dictatorial power in enforcing certain standards in the food, drug and cosmetic industries. Opponents of the bill considered it too drastic in many respects, not least in its control over the advertising of certain products. Nevertheless, the strongly organized lobby of the drug trade, allied with those who benefit from the advertising of its products, makes the fate of the bill doubtful, even if, as Secretary Wallace has said, it would be a boon to "honest manufacturers."

PHILIPPINE INDEPENDENCE

When Congress has disposed of domestic legislation it may be obliged to consider again that hardy perennial, Philippine independence. The Hawes-Cutting measure, passed in January, 1933, provided that the law must be accepted by the Filipinos within a year; the Philippine Legislature, however, rejected the law which thus seemed destined to expire on Jan. 17. A Philippine independence mission, headed by Manuel L. Quezon, arrived in the United States early in December to seek revision of the Hawes-Cutting proposal. President Roosevelt, who received the members of the mission on Dec. 27, told them to submit a concrete independence proposal in writing. As the independence question has become involved in Philippine politics it is probable that President Roosevelt again showed his political astuteness when he asked Señor Quezon to submit the sort of independence proposal he and his followers desired. When Congress convened the details of this proposal had not been made public.

The Foreign Policy Association and the World Peace Foundation submitted to President Roosevelt on Jan. 1 a program for Philippine independence which provided for neutralization of the islands following a ten-year period of responsible government, liberal regulation of Filipino immigration and exports to the United States, and the abandonment of all American naval bases in the islands upon the granting of final independence. But perhaps the attitude of many men in Congress was expressed best by a Senator who is said to have told Señor Quezon: "We have been listening too long to this Philippine independence argument. Here is your independence bill [the Hawes-Cutting Act]. Take it or leave it. You may never have another chance."

Mexico Plans a New Social Order

By CHARLES W. HACKETT
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ALTHOUGH Mexico has witnessed great changes during the past decade, even greater departures from the old order are now apparently imminent. The continued and complete supremacy of the National Revolutionary party makes its program tantamount to the law of the land. Its policies, in fact, are usually converted into law with the minimum of delay. For this reason the conventions of the party are of the utmost significance in Mexican affairs. At the one which met at Querétaro on Dec. 3, for example, a far-reaching program of social experiment was adopted, and the convention had hardly adjourned before the Mexican Congress enacted legislation looking to the realization of that program.

The reforms approved at Querétaro were contained in a Six-Year Plan which was first proposed by former President Calles several months ago and subsequently elaborated by the present government. When presented to the convention of the National Revolutionary party in published form, it proposed for Mexico "a co-operative economic system tending toward socialism." Its specific aims are to raise the standard of living of workers; to fix a definite minimum wage; to promote education vigorously; to complete Mexico's agrarian and public-works program, and to improve Mexico's relations with foreign countries. In a statement accompanying the published plan, General Calles said: "I know that more radical programs could be presented, but to make social experiments at the cost of the hunger of multitudes is a crime." The Six-Year Plan was based, he added, on "study, statistics and lessons of experience," and was suited to the needs and possibilities of the country.

The 2,000 delegates at the convention, including the Governors of all the Mexican States, not only adopted the plan as presented to it, but also clamorously approved a supplementary proposal made by the Vera Cruz delegation, that Article III of the Constitution be amended to provide for "Socialist education as the basis for primary and higher education." The convention also adopted a proposal to convert the National Agrarian Commission into an autonomous government department so as to facilitate the distribution of land to the peasants.

Repercussions of the Querétaro convention, within a week after its adjournment, were heard in the National Congress. In the Chamber of Deputies a committee recommended on Dec. 16 that Socialist doctrines be taught in all schools and that religious institutions and ministers be barred from "establishing, directing and teaching in elementary and secondary schools." Four days later a proposed constitutional amendment providing for agrarian reforms was submitted by Congress to the State legislatures. It empowers the President, through an Agrarian Department, to expropriate lands and distribute them among the

agrarian population, without permitting those whose lands may be expropriated to appeal to the courts. Although Mexico already has outstanding about 800,000,000 pesos (about $250,000,000 at the current rate of exchange) of agrarian bonds, which Acting Finance Minister Marte Gómez declared "there is no possibility of redeeming," the Congress refused to sanction expropriation without compensation. Instead, it provided in the proposed amendment that the lands taken should be paid for with additional bonds. To become effective a proposed amendment must be ratified by two-thirds of the State legislatures; by Dec. 24 twenty of the twenty-nine Mexican States had ratified the amendment providing for agrarian reforms that had been introduced in Congress only three days earlier. The proposal of the Chamber of Deputies to teach Socialist doctrines in all schools was left for the deliberation of the next regular session of Congress.

Extraordinary powers, which give President Rodriguez almost complete control over every branch of the Mexican Government for a period of nine months, were granted by Congress on Dec. 21. This action was taken to enable the President, through the medium of decrees, to put the Six-Year Plan into effect on Jan. 1. Notable among the powers given to the President is that of amending and revising, before the next meeting of Congress on Sept. 1, the petroleum laws of 1926 and 1930. Other powers voted to the President include the right to amend the naturalization laws; to reorganize the diplomatic and consular service; to expedite reforms in the civil and criminal codes; to proclaim a code of mercantile laws; to issue new regulations governing monopolies; to decree public health legislation, and to coordinate construction of highways. These extraordinary powers supplement earlier ones which had already been given the President in matters of State finance, national defense and agrarian reform.

Another step taken by the Querétaro convention was the nomination of a candidate for the Presidency at the election of next July. The choice, which amounts in Mexico to election, fell on General Lázaro Cárdenas, a descendant of Tarascan Indians. General Cárdenas, who is only thirty-eight years old, was active in the revolution two decades ago. He has been Governor of the State of Michoacán, president of the National Revolutionary party and has twice held Cabinet portfolios.

In accepting the party's nomination for the Presidency, General Cárdenas pledged himself to assume the entire responsibility of government and at the same time seek the counsel of the leaders of the national revolutionary movement. Besides endorsing the Six-Year Plan he approved the policy of repatriating Mexican émigrés; the strict enforcement of the anti-clerical laws; greater scope for the energies and talents of women in public affairs; and, as regards Mexico's foreign relations, the assumption of an attitude befitting her national dignity while preserving her ties with those nations to which she is linked either by blood or by commercial interests. The army, he stated, "must continue to be the stronghold of proletarian tendencies and the source of inspiration for our social evolution."

The budget for 1934 was voted by the Mexican Congress shortly before it adjourned on Dec. 26. The total of 243,000,000 pesos (about $70,000,000 at the current exchange rate) represents a slight increase over the 1933 budget. The largest single appro-

priation was 61,118,189 pesos for the army—about 25 per cent of the total budget. Internal and external debts were voted 40,669,180 pesos, some 15,000,000 pesos more than was provided for the purpose in 1933. Next came 31,235,183 pesos for education and 30,429,054 pesos for roads—two services which United States Ambassador Daniels has called Mexico's outstanding needs.

CUBA SWINGS TO THE LEFT

After suppressing armed rebellion in November, the Grau San Martín government of Cuba spent December in coping with strikes, in rejecting proposals that it conciliate opposing political factions, and in challenging the opposition of foreign governments and corporations by socialistic decrees that seriously affected the status of foreign-owned public utilities and sugar mills. The grounds for international difficulties were laid by decrees providing for advanced nationalistic labor reforms. As the year ended, the Grau régime had been thoroughly purged of conservative influences and had become definitely committed to a radical program.

A crop of actual or prospective strikes developed early in December. Employes of the $200,000,000 American-owned Compañia Cubana de Electricidad, the largest American corporation in Cuba and an affiliate of the Electric Bond and Share Company, which holds a virtual monopoly over electric power in Cuba, presented forty-one demands to company officials. The latter rejected these demands and characterized them as involving virtual control of the enterprise. A strike of 10,000 tobacco workers throughout Cuba; a strike in a German-operated rope factory at Matanzas; disturbances caused by strikers at a Woolworth store in Camaguey, which caused the entire city of Camaguey to be taken over by the soldiers; and the seizure of a newspaper in Santiago by employes who disapproved a change in the management—all these evidences of profound unrest were reported before Dec. 5. The following day a strike was declared by employes of the American-owned Tacaso Sugar Mill, in Oriente province, which refused to meet the demands of workers. The same day other ultimatums by workers were issued or were imminent in Oriente province.

That theory was marching step by step with practice was apparent from a statement drawn up by the workers of Havana on Dec. 5. It read: "This government was intended to be a labor government, and the working classes in general are going to see that it is a labor government in every sense of the word." At that time, however, the government had not proceeded so far to the Left. In fact, on Dec. 8, Colonel Fulgencio Batista, Cuban Chief of Staff, averted a serious conflict between capital and labor when he forced the employes of the Compañia Cubana de Electricidad to grant the company a full week to study their demands. Colonel Batista warned the employes that if they tried to strike or to prevent the operation of the plant "it would bring American intervention," and added that he would not tolerate a strike. This action and other extraordinary precautions were designed to prevent the disorders and general looting that were anticipated in case the island were thrown into darkness. The significance of this is apparent from the fact that the electric company is the key to labor difficulties in Cuba. A staff correspondent of the *New York Herald Tribune* reported on Dec. 4: "If anything happens to the power supply, operations will

have to be suspended by numerous sugar mills, water-supply plants, printing firms and factories. * * * Industry might well find itself paralyzed, stores and shops would close, and whole cities and towns would be left in darkness."

Meanwhile, the proposed strike of the employes of the Compañia Cubana de Electricidad became subordinated to difficulties connected with certain Presidential decrees. One decree called for the employment of 50 per cent of native Cuban labor in all concerns. This decree immediately drew fire in the form of an official protest by the Spanish Ambassador on Dec. 2. It was estimated that the measure would throw out of work thousands of Spaniards employed in various Cuban industries. In defense of the measure, however, 2,000 Cuban laborers marched to the Presidential Palace on Dec. 4 and demanded, not only that the decree requiring 50 per cent of native labor be retained, but also that the figure be raised to 80 per cent. In spite of protests by foreign diplomatic officials, President Grau promised to enforce the 50 per cent native labor decree to the letter.

Rumors that the Grau government was committed to a program of confiscation of foreign-owned property appeared to be borne out on Dec. 6, when President Grau signed a decree ordering the Compañia Cubana de Electricidad to cut its rates an average of 45 per cent throughout Cuba, and forbidding it to reduce either personnel or salaries in conforming with the order. Another decree radically reduced the rates of the Cuban Telephone Company, a subsidiary of the International Telephone and Telegraph Company, which holds a virtual monopoly over telephone communications in Cuba. Under this decree the prevailing rates were cut from $5 to $3 for a residence telephone and from $9 to $5 for a business telephone.

The situation had reached this pass when Colonel Fulgencio Batista's display of force on Dec. 8 prevented the strike that had been planned by the employes of the Compañia Cubana de Electricidad from taking place. Labor disorders continued, however, and on Dec. 17 four men were killed and ten were gravely wounded in riots following a demonstration by commercial employes, most of whom were Spaniards, protesting against the decree restricting foreign labor. The next night sixteen bombs were exploded in various parts of Havana, most of them in mercantile establishments, where the damage amounted to $20,000. In support of the Grau policies, however, a mass demonstration attended by 30,000 Cubans was held on Dec. 21. The demonstrators denounced the Platt Amendment and demanded that all companies employ at least 80 per cent Cuban labor. The same day the seizure of American-owned property was continued when two sugar mills, among the largest in Cuba, and representing an original investment of $10,000,000, were seized under orders issued by Dr. Antonio Guiteras, Secretary of the Interior and of War. Military authorities occupied both the mills and the sugar warehouses of the company.

Plans for reconciling the opposing political factions broke down completely during December. The peace formula offered unofficially by Dr. Fernández de Medina, the Uruguayan Minister to Cuba, late in November continued to be pressed by its author until Dec. 11. Dr. de Medina declared that he was obliged to abandon his efforts at conciliation because President Grau refused to deal with delegates who went to the Presidential

Palace to demand, among other things, his immediate resignation.

Other efforts to bring about peace proved to be equally unproductive of results. A final blow to any direct arrangement between the Grau government and opposing factions appeared to have been struck on Dec. 4 when a manifesto, issued by a revolutionary group headed by former President Mario G. Menocal, characterized the plans of the Grau régime as incomplete, ill-founded, impracticable and unjust. Subsequently a series of conferences were held by Cuban oppositionists and government leaders with United States Ambassador Sumner Welles, but with little indication of success. Finally, on Dec. 11, President Grau San Martín abruptly broke off negotiations, declaring that he had no intention of resigning and that he would make no further effort to bring about an agreement between his government and the opposing factions.

This action was interpreted as a victory for the radical element of the Grau Cabinet, headed by Dr. Antonio Guiteras and backed by Left Wing supporters. This group had steadily fought to block conciliation. Eleven days later the resignations of three Cabinet members, regarded as conservatives, were submitted to President Grau. That of Dr. Costales Latatu, Secretary of Public Instruction, was promptly accepted. Action was deferred on the resignation of Romiro Capablanca, Secretary of the Presidency; Gustavo Moreno Lastares, Secretary of Public Works, and Dr. Domingo Tamorgo, Secretary of Justice.

The "watchful waiting" policy of the United States toward the Grau San Martín régime was continued during December and as the year ended there was no indication that Washington intended to accord recognition to President Grau. Ambassador Sumner Welles, after an absence of twelve days in the United States, returned to Havana on Nov. 29. His return aroused hope among the general public that he would once again assume the rôle of mediator between the various factions of the island. This Mr. Welles refused to do, even when his cooperation was requested by Dr. de Medina, who was trying to bring the factions together. When Dr. de Medina admitted the failure of his efforts on Dec. 11, he blamed Ambassador Welles, on the ground that the latter had not "deigned" to follow his advice.

This charge drew from Ambassador Welles a summary of his policy, which was released by the Department of State on Dec. 12. He explained that he had advised Dr. de Medina that he could take no action whatever, although he sympathized with his efforts. Should his opinion be requested, he said that he "would counsel a peaceful adjustment of all disputes through patriotic compromise." He added: "Any conversations with the party leaders have * * * been limited to this. In my conversations with Grau himself, when he requested my assistance, I made it thoroughly clear that I could take no part whatever other than that of a friendly observer." Shortly afterward, in accordance with arrangements announced by President Roosevelt in November, Ambassador Welles returned to his former position in the Department of State and was replaced at Havana by Jefferson Caffery, not as Ambassador but as the personal representative of President Roosevelt.

America's Good-Neighbor Policy

By Henry Grattan Doyle
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The seventh Pan-American Conference, held at Montevideo from Dec. 3 to Dec. 26 (the results of which are set forth in Dr. Ernest Gruening's article on pages 529-534 of this magazine), was not only the outstanding event of 1933 in South American affairs; it also marked a highly important development in the attitude of the United States toward the other republics of the Western Hemisphere, as was made clear by President Roosevelt two days after the conference had concluded its labors.

In his noteworthy speech at the Wilson Day dinner in Washington on Dec. 28, the President characterized the conference as "a fine success" and declared that "a better state of feeling among the neighbor nations of North and Central and South America exists today than at any time within a generation."

In the course of his discussion of problems of international relations that directly concern the Latin-American nations, President Roosevelt referred to President Wilson's statement in 1913 that "the United States will never again seek one additional foot of territory by armed conquest" and put forward a plan for intervention, when inevitable, not by the United States alone but by all countries jointly. While these points were not new, they tended to reinforce the good feeling toward us developed at Montevideo as well as by our restraint in dealing with Cuba.

President Roosevelt's concrete proposals for progressive disarmament and for a declaration that "no nation will permit any of its armed forces to cross its own borders into those of another nation" put the United States again definitely on record on policies which, while well known, cannot suffer by reiteration. Needless to say, they have been well received in the Latin-American press, which looks upon the speech as a clear renunciation of imperialistic aims and a concrete example of the "good-neighbor" policy. There is evidence that President Roosevelt's popularity in the Latin-American countries is rising as fast and steadily as it is in his own.

THE FUTILE CHACO TRUCE

The hopes of ending the apparently interminable dispute between Bolivia and Paraguay have again been defeated. Indeed, but for the war clouds hovering over the Chaco, the atmosphere of harmony in which the conference at Montevideo terminated would have been very much brighter. Even so, the declaration of Delegate Alfonso Lopéz, "We turn over to the League of Nations what we are incapable of settling," made at the closing session, summed up a rather general state of mind as to the accomplishment of the conference in regard to the Chaco. Yet, despite the success of the conference in inducing Bolivia and Paraguay to agree to a truce effective on Dec. 19 at midnight, it was announced on Jan. 6, eleven days

after the conference came to an end, that hostilities would be immediately resumed.

Reference was made in this chronicle last month to a lull, coinciding with preparations for the assembling of the conference, in military operations in the Chaco, after six months of intermittent heavy fighting. A series of smashing Paraguayan victories, beginning in the Gondra-Alihuata sector and rapidly extending to the south, was marked by the capture of Fort Alihuata on Dec. 10, of Fort Samaklay (Agua Rica) on Dec. 12, and of Forts Murguía and Saavedra on Dec. 13. This was followed by the removal of General Hans Kundt, the German-born commander of the Bolivian forces, and his replacement by Colonel Enrique Peñaranda, who was promoted to General after he had succeeded in cutting his way through the Paraguayan lines and escaping with 3,000 Bolivian troops.

This feat was apparently the only solace for the Bolivians in an overwhelming military disaster, which involved the virtual annihilation of two army divisions, the Fourth and the Ninth, and losses reported at from 10,000 to 15,000 dead and taken prisoner. Only the Seventh Division was left on the southern front to hold back the Paraguayans from Fort Muñoz, the Bolivian field headquarters, when the truce was announced in Montevideo. The Paraguayan drive carried forward, however, culminating in the capture of Forts Muñoz, Sorpresa and Corrales, the last being one of the key points in the northern sector.

According to Bolivian claims, the final Paraguayan victories took place after midnight on Dec. 19, when the truce was supposed to go into effect. Bolivia also made the charge on Dec. 24 that Paraguay had violated the truce by an attack south of Fort Platanillos, an important supply centre and concentration point on the main road to Ballivián, whither Bolivian headquarters were removed following the débâcle at Fort Muñoz. These charges were denied by Paraguay in a communication to the League of Nations on Jan. 3.

The truce, originally arranged to cover the eleven days ending at midnight on Dec. 30, was later extended to midnight on Jan. 8. A direct outgrowth of the activities, official and unofficial, of President Terra of Uruguay, Secretary Hull and other delegates at Montevideo, the truce was received with enthusiasm by the conference and by official and unofficial opinion throughout the hemisphere and abroad. Secretary Hull declared that "if we achieve peace in the Chaco, this will be the greatest conference of all time," and the general acclaim with which the truce was received gave promise that marked progress toward settlement might be made even before the conference adjourned.

This promise was not destined to be fulfilled, partly because of Bolivia's charges of violation of the truce, partly because of the unwillingness of the conference to duplicate the efforts of the League of Nations Chaco Commission, and perhaps also because of the practical and time-consuming obstacles involved in the reported reaffirmation by the two belligerents of their previous positions—the rock upon which all earlier attempts to compose their differences had split.

In the meantime the League commission, which had been conferring in La Paz with Bolivian officials, left for Montevideo to press the peace negotiations. The members of the commission -Julio Alvarez del Vayo of Spain, chairman; General Freydenberg of France; General Robertson of

England; Count Aldovradio of Italy, and Colonel Rivera Flandes of Mexico —met in Montevideo on Dec. 25. A resolution passed by the conference on the preceding day had declared that "the countries represented at the conference would support, in accordance with the special circumstances and policy of each government, whatever formulas of settlement might be reached."

The conference also adopted an Argentine proposal for a conference at Buenos Aires, to be attended by the two principals and by the ABCP nations, to consider the economic and geographic problems of Bolivia and Paraguay. Among the subjects proposed to be studied were methods of readjusting the commerce of Bolivia, including her transportation connections with the Pacific and the development of the La Plata and Amazon River systems, and, for Paraguay, improvements in the Paraguay and Paraná Rivers so as to permit navigation by 3,000-ton steamers to points further up the rivers than is now possible. Commercial interchange between the two countries would also be considered. The resolution was made contingent upon approval by the League of Nations commission.

The League commission conferred in Montevideo with Delegates Gerónimo Zubizarreta of Paraguay and Casto Rojas of Bolivia. Members of the commission were present at the final meeting of the conference on Dec. 26, when a resolution was adopted, on the motion of Secretary Hull, which, after declaring that "the question of honor is not now involved as to either nation, but that both parties can cease fighting with entire credit to themselves," and that further fighting could not be justified, earnestly requested the two nations to "accept juridical processes for the solution of their differences." The chairman of the League commission, Señor Alvarez del Vayo, also addressed the final conference meeting. The commission's activities were transferred on Jan. 1 to Buenos Aires.

Interesting sidelights on the Chaco problem are shed by an interview with Casto Rojas, one of the Bolivian peace representatives, published in *El Digesto Latino-Americano* of Panama on Nov. 13 and an article by another Bolivian, Octavio LaFaye, published in the same journal on Dec. 4. Both support the position taken by this writer (see CURRENT HISTORY for May, 1933) with regard to reports that the Standard Oil Company was financing the Chaco operations of Bolivia. Casto Rojas and Octavio LaFaye both emphatically deny the story and point out that the oil region lies far to the northwest and commercially points naturally toward the Bermejo River and Argentina rather than the Chaco. Both point also to the litigation between the government and the oil company over a recent fine of 1,000,000 bolivianos. "Bolivia is fighting solely for her own honor," said Casto Rojas. "The President of Bolivia might be imagined cruel enough to send Bolivia's Indian masses to their death for Standard Oil, but if it is his own children that he arms to fight the Paraguayans, and sees them fall wounded and their bodies returned home from the front [a reference to the death of President Salamanca's son], it is inconceivable that he should not be convinced of the high patriotic righteousness of the war."

THE LETICIA QUESTION

The Leticia question, now under consideration by another League of Nations commission in session at Rio

de Janeiro, threatened for a moment to disturb the conference at Montevideo when on Dec. 14 one of the Colombian delegates, referring to the action of the steering committee in choosing Lima, Peru, as the seat of the Eighth Pan-American Conference, made an irrelevant remark expressing surprise that the conference should hold its next meeting "in a city where the Colombian Legation had been set on fire." A Peruvian speaker promptly objected, and the incident was smoothed over by the tactfulness of Dr. Alfonso López, the Colombian statesman to whose initiative the potential adjustment of the Leticia squabble is so largely due, and who is popularly looked upon as the next President of Colombia.

Reports on Dec. 25 of Colombian troops being transported up the Amazon on the troopship *Boyacá* and of the movement of three Peruvian destroyers up the river en route to Iquitos caused some concern. The representatives of Colombia and Peru conferring at Rio announced, however, that these movements were merely "routine." Imposition of a rigid censorship by Colombia on reports of troop movements was reported on Dec. 24 from Guayaquil, Ecuador, and was interpreted as indicating lack of headway at Rio de Janeiro, in spite of official reports that the negotiations were "proceeding normally and in good spirit."

REVOLT AND UNREST

The Montevideo conference had hardly adjourned when unsettled political conditions arose in the ABC countries which had contributed so much to the success of the conference.

In Argentina the government was forced to declare a "state of siege" on Dec. 29 as the result of disorders in four provinces in connection with a revolt of extremist elements alleged to be recruited from among the 1,000,000 members of the Radical party who have been disfranchised since the revolution of 1930. About a score of persons were killed in fighting at Rosario, in Santa Fe Province, and about a hundred were injured. Simultaneously with the disorders in Santa Fe, disturbances broke out in three other provinces, San Luis, Corrientes and Buenos Aires. Postoffices, police stations, and arsenals were the objects of attack. The decision of the Radical party to abstain from voting in the parliamentary elections announced for March, on the ground that the voting would be "manipulated," in spite of President Justo's pledge of fair elections, was the immediate cause for the revolt. By Dec. 30 about 1,000 persons were under arrest charged with complicity in the revolt, among them former President Marcelo de Alvear and Honorio Pueyrredón, former Ambassador to the United States, Radical party leaders who have been thorns in the side of the Uriburu and Justo governments ever since President Irigoyen was overthrown. In Corrientes Province the rebels succeeded in holding out against government forces as late as Jan. 2. An international complication was introduced by the fact that some of the rebels were operating from Brazil, and the Brazilian Government was reported to have arrested and interned a number of the insurgents.

In Chile the government moved suddenly on Jan. 2 to nip a revolutionary plot alleged to have its centre of operations in Argentina, where former President Carlos Ibáñez is living. Many arrests were made in Santiago, Concepción and Valparaíso. The government had been voted "extraordina-

ry powers" for six months by Congress on Dec. 13 in order to cope with subversive movements. A demonstration by the *Milicia Republicana,* or White Guard, organized to support the government against radicals, was held on Dec. 17 with parades in many cities, some 8,000 members passing in review in Santiago. Their leader, Eulogio Sánchez, announced that the sole purpose of the "militia" was to defend constitutional government and maintain public order. President Alessandri's government is reported to be sympathetic with its aims, but relations between the "militia" and the regular army are strained. General Pedro Vignola, chief of staff of the army, was cashiered early in December because he had forbidden members of the army to enroll in the "militia."

Rigid press censorship was reported as prevailing in Argentina, Chile and Uruguay. President Terra of Uruguay was reported on Jan. 2 to have ordered military trials for about fifty soldiers and civilians accused of complicity in a recently discovered revolutionary plot in that country. A student strike in Ecuador early in December led to the closing of Quito University and a high school in Guayaquil.

Brazil's difficulties have been political. A Constituent Assembly has been in session in Rio de Janeiro for some months considering the proposed new Constitution. It adjourned shortly before Christmas for thirty days in order to give the drafting committee an opportunity to prepare some 1,000 amendments. Rumors of political tension early in December were followed by a Cabinet crisis brought about outwardly by a disagreement between the administration and Osvaldo Aranha, Minister of Finance and a leader in the revolution of 1930 which placed President Getulio Vargas in the Presidential chair. Behind the dispute—over the filling of the provisional Governorship of the State of Minas Geraes—was the determination of about eighty members of the Constituent Assembly, according to some news sources, to carry out the purposes of the 1930 revolution in spite of the conservative tendencies of the government. On Dec. 29 Senhor Aranha resigned, together with Dr. Afranio de Mello Franco, Minister of Foreign Affairs, who had been a tower of strength to the constructive elements of the Montevideo conference, and other officials. The Minister of Public Works and the Minister of Labor resigned the next day, in order to give the President a free hand in reconstituting his Cabinet. By Dec. 31, all the Ministers had resigned, and Arthur Costa, president of the Bank of Brazil, was reported to be endeavoring to form a new Cabinet. On Dec. 22, President Vargas extended full amnesty to all officers and soldiers who took part in the Sao Paulo military revolt of 1932.

FLOURISHING VENEZUELA

President Juan Vicente Gómez of Venezuela on Dec. 23 celebrated the twenty-fifth anniversary of his assumption of power in that republic. It was on Dec. 17, 1908, that Cipriano Castro, the former dictator, left Venezuela forever. President Gómez, the only dictator who is firmly in the saddle in South America, closed his last fiscal year with Venezuela's foreign debt liquidated, her internal debt greatly reduced, and with a treasury balance of about $12,000,000. His financial success provides the unthinking with one of their strongest arguments for dictatorships in Latin-American countries.

Britain's New Protectionism

By J. BARTLETT BREBNER
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HAVING earlier abandoned her tradition of free trade and free competition because of the urges of a post-war nationalistic world, the United Kingdom has become committed to thoroughgoing devices to protect her economic position. Customs duties and depreciated currency have given her manufacturers tariffs of about 50 per cent against the products of countries on gold. Since the Ottawa agreements and other bilateral treaties failed to protect the British farmer sufficiently, quotas and gentlemen's agreements have checked imports of Dominion, South American and Scandinavian meats and dairy products. And, after British shipping had declined for more than two years because of foreign subsidies and coastal navigation restrictions, the guardians of the Treasury recently revealed that public funds would, if necessary, be used to save the British merchant marine.

To protect ocean liners flying the British flag and to assuage a national pride wounded by the achievements of Germany, Italy and France in the North Atlantic, the Government announced on Dec. 13 that the merger of Cunard and White Star services in that trade was sufficiently complete to warrant a £6,000,000 loan for the completion of Cunarder No. 534—the Princess Elizabeth. As for foreign competition in freight traffic, that might be met with subsidies and restrictions upon coastal and intra-Empire shipping. American, Japanese and Italian government guarantees had secured the freights of the Pacific and the Mediterranean for their own vessels, and American legislation had closed the New York-Honolulu trade and shorter coastal traffic routes to foreigners. Yet Great Britain as a world carrier might be more injured than helped by reprisals of this nature. It is for this reason that the British Government obviously would come to no precipitate decisions.

Although rumblings of discontent had been heard in the United Kingdom and the Dominions even before the Ottawa Conference in 1932, London had managed to prevent their leading to parliamentary discussion and action, chiefly, no doubt, for reasons of expense and for the sake of international concord. But, on Dec. 13, the request of the Council of the British Chamber of Shipping for assistance to distressed tramp steamer operators was submitted to Parliament and vigorously debated. Sir Herbert Samuel and others attempted to stand out for international agreement rather than competition, but their opponents could with justice point out the vanity of such hopes. After Sir Robert Horne had demanded that the foreign challenge be accepted, Walter Runciman, president of the Board of Trade, made a shrewdly calculated response to the indignation of the House of Commons. Declaring that "the temper of this country is aroused" and caution-

ing the House against the dangers of British action, he explained that, if the two branches of the shipping industry would agree on a policy, the government would act. It was believed that the course of events in November and December, both within and without Parliament, represented an attempt to arouse public opinion in favor of subsidizing the merchant marine, chiefly the tramp steamers.

Parliament, however, concerned itself during December largely with the Newfoundland Bill and the new Unemployment Bill. After keen debates in Lords and Commons, the government upheld its plan to restore Newfoundland's credit at the expense of the British taxpayer, although its critics forced the concession that Dominion status be "suspended" rather than "revoked." Sir Edward Grigg and others deplored the absence of a representative element in the governing commission to be set up in Newfoundland—particularly when taxation would be considered—and there were many fears of the Constitutional and financial precedents involved.

Labor fought hard, but vainly, to block the new unemployment measure and the use of a time limit while it was being debated, but the government used its huge majority to override all opposition. Liberal and Conservative critics, as well, denounced the measure, and it was reported that notice had been given of about 100 amendments. The principal objections were raised because the insurance provisions of the bill were handicapped by a debt of £115,000,000; because its benefit rates were those of 1931, which had been introduced as temporary; because it retained the means test; because the board directing relief was not made responsible to Parliament; and because white-collar workers were excluded from the insurance benefits by fixing the maximum salary for the insurable at £250 a year. Unemployment reports, however, showed that during December, in spite of seasonal and special contrary influences, unemployment fell by 55,938 to 2,224,079, a reduction of about 500,000 during 1933. In the same period 567,000 were added to the insured employed.

The trade returns for November, 1933, as compared with November, 1932, continued to show improvement in spite of the rise of the pound in relation to the dollar and the franc. Exports were £34,434,969 (£31,093,687 in 1932) and imports were £63,734,338 (£61,515,916 in 1932). During 1933 exports rose about 11 per cent. On Dec. 27 it was announced that because of the abolition of the 15 per cent surtax on British exports to France and the promise to reduce the turn-over tax on such goods from 6 to 2 per cent, the two countries would at once begin negotiations for a new commercial agreement.

THE IRISH BLUE SHIRTS

General Eoin O'Duffy continued during December to provide the Irish electorate with the color and excitement which they enjoy in their politics. For one thing, on Dec. 14 he changed the name of his Blue Shirts to the League of Youth, this being the second time that he has met a governmental ban in that way. The courts have been applied to for a declaration of its legality as an unarmed, though uniformed, affiliate of the United Ireland party. The other Irish unofficial organization, the Irish Republican Army, is known to be armed.

O'Duffy himself played hide-and-seek with the police from Dec. 8 to 17, when he was arrested while addressing a meeting at Westport, County Mayo.

Charged with wearing a blue shirt which was evidence of membership in an illegal organization, he was smuggled by the police to Dublin, where the leading lights of the Irish bar and bench gave the country an exciting spectacle in *habeas corpus* proceedings which culminated in the prisoner's release on Dec. 21. The hearing was enlivened by discussion of "the wearing of the green" and the innocence of a blue shirt, but the government retorted by ordering the General to appear before a military tribunal under the Public Safety Act for suggesting the murder of de Valera in a speech at Ballyshannon (which O'Duffy promptly denied) and for membership in an illegal organization. Once again his lawyers secured delay and the country chuckled as it always has over governmental discomfiture. The funeral on Dec. 30 of Hugh O'Reilly, a murdered Blue Shirt, was made the occasion for another appeal for widespread support.

Meanwhile, public moves in the Anglo-Irish duel were suspended, except that the Free State suffered rather more than other exporting countries by the quotas on beef and fat cattle imports set up by the United Kingdom on Dec. 20. November's trade figures were much worse than those of November, 1932, and it was reported on Nov. 30 that £7,353,000 of annuity payments had been withheld, while the Free State had paid £5,572,000 in British duties on Irish goods and about £3,000,000 in bounties on exports. Thus, although the country was steadily increasing in self-sufficiency, it was making equally steady inroads upon its capital. The December loan of £6,000,000 was not fully subscribed, and a trade delegation returned from Berlin disappointed by the possibilities of the market open to Irish cattle and dairy products.

Several observers felt that Mr. de Valera must either conclude a bargain with Great Britain or see Mr. Cosgrave's United Ireland party win the confidence of the electors. De Valera however, seemed to be doing his best to represent order and stability against the threats of the Irish Republican Army of the Left and the League of Youth on the Right.

CANADIAN PROBLEMS

The Canadian economic revival noticeable since April has presented such a pleasing contrast to the gloom of 1932-33 that many Canadians have tended to ignore certain underlying economic ills. Three problems remain substantially unsolved and are only gradually securing attention—those of wheat, the railways and the debt burden. At the end of 1933 early wheat futures at about 60 cents were approximately 20 cents (Canadian currency) higher than those of a year before, but most authorities held that the cost of production was 70 cents. There was a huge carry-over, even after a short crop, and the fact that 1933 exports were but 60 per cent of those of 1932 served notice that domestic production in other countries had eliminated many former markets. The government holdings of wheat were still a subject of speculation, but were reported to be 200,000,000 bushels. The Western farmers wanted a national wheat board to handle all marketing and pay a high domestic price while allowing exports to go for world prices, but the Prime Minister did not want to increase Federal commitments and the Winnipeg Grain Exchange indicated its faith in established forms of marketing. Federal efforts were being directed to carrying out the International Wheat Agreement by reduction of acreage.

In spite of economic revival else-

where, the short wheat crop meant continuance of the difficulties of the National railways. Their deficit for 1933 was estimated at $60,000,000—a serious burden on the national credit. Three new governing trustees of the system were appointed on Dec. 24 and the presumption was that they were to test for a period the possibilities of cooperation between the National system and the Canadian Pacific Railway, which was recommended by the Duff Commission two years ago and provided for in the Railway Act of 1933. Another experiment was the arrangement for the speedy introduction in each of the Provincial Legislatures of something like common regulation of motor road transport so as to bring under control that competitor of the railways.

It has been a great relief that Canada and her public bodies have come through the depression without default on financial obligations. In London as well as New York Canadian bonds are held in high regard. Yet the Dominion has had to use its credit to support the prostrate Western Provinces, and in December their Premiers met in Victoria to form a bloc and, like the Maritime Provinces, to demand "better terms." Their program asked for relief by conversion of their obligations to lower interest rates, new Federal loans at low rates, extensive Federal public works—if need be, by currency inflation—and Federal assumption of responsibility for unmarried transient labor. Mr. Bennett's reply was to summon a Federal-Provincial conference in Ottawa on Jan. 11 for the discussion of unemployment relief and insurance and finance in general.

When the legacy of the past could be forgotten, present and future looked bright. All the economic indices showed continued betterment during 1933 and over 1932. Even employment overcame seasonal influences to show marked improvement during November. The physical volume of business had risen about 17 per cent over 1932. The year's export surplus of about $141,000,000 was the highest since 1928, and the trade figures for November continued the upward surge at an even higher rate than earlier in the year. Exports, as compared with 1932, were $60,385,000 ($45,945,000) and imports $43,712,000 ($37,769,000). Almost every category of exports showed an increase, with non-ferrous metals and animal products about doubled and agricultural products making about a 20 per cent increase. A large part of the rise in imports was in raw materials.

The trade figures, however, began to show the changed relation of Canadian, American and British currencies, and made it apparent that the rise in the pound and the decline in the American dollar had caused Canada to enlarge her purchases in the United States, thus reversing the definite trend since the Ottawa agreements. On the other hand, exports to the United States declined. The violence of alterations in the triangular currency situation makes explicit conclusions impossible, but it would seem that their extent can upset delicately balanced bilateral commercial treaties with great ease, although Canada has resorted to exchange duties as well as tariffs to meet them.

These circumstances strengthened Mr. Bennett's determination to set up a central bank to control currency and exchange. It is not certain how much power Canada has in relation to British and American finance, but what there is has never been coordinated. A careful study made by the Bank of Nova Scotia in December suggests that since September, 1931, a sterling

quotation of \$5.02 in New York corresponds with parity there for the Canadian dollar, and that a change in the pound of 10 cents above or below \$5.02 effects a rise or fall of 1 cent in the Canadian dollar.

The King's New Year honors created two Canadian knights and bestowed a number of lesser rewards upon various men and women. The honors conferred on Canadians were the first since 1919 and showed that the Canadian Cabinet had resumed its recommendations to the Crown after a long lapse. Two judges, some civil servants and some charity and social workers were honored.

REVIVAL IN NEWFOUNDLAND

Observers reviewing the developments of 1933 in Newfoundland have detected definite signs of economic recovery. The seal fishery was good and a bad cod fishery was partly relieved by good catches off Labrador and by slightly better prices. Hard times brought about a useful improvement in subsistence agriculture. Exports of timber, wood products and iron rose with the economic revival elsewhere. Remittances from emigrants increased. Perhaps most useful of all for a Winter season was the fact that the paper mills sent out large gangs to the forests and were working full time again. The psychological effects of British intervention and a rest from party politics were seen in larger Christmas buying.

AUSTRALIA'S WHEAT PROBLEM

During 1932-33 Australia became second among the wheat-exporting nations of the world and found herself in much the same difficulties as Canada, despite the fact that her greater currency depreciation somewhat eased the strain. In the 1933 season a governmental bonus of 4½ pence a bushel had procured the farmers 2s 6½d a bushel at country elevators. Their cost of production, however, was 3s, and despite the government subsidy of £2,000,000 they lost money. For 1934-35 £3,500,000 in wheat subsidy is to be raised by taxes and duties on flour and tobacco and out of revenue, even though consumers' protests and the knowledge that wheat prices are not likely to improve have made the move unpopular and politically dangerous. Further difficulties arose from the reduction of acreage under the International Wheat Agreement of 1933, and there was talk of removing farmers from marginal lands. It was fortunate that increasing realization of a world wool shortage had been raising wool prices steadily during 1933. This and the growth of Australian internal trade during November and December served to offset in some degree the cheerless prospect in wheat.

SOUTH AFRICAN FUSION

General J. B. M. Hertzog, leader of the Nationalists, and General J. C. Smuts, leader of the South African party, assisted by N. C. Havenga, have been laboring during the past few months to bring about a real fusion of the two major political groups in the Union. The South African party, which comprises the larger portion of English-speaking South Africans, was quite willing, but the conservative Afrikaans-speaking Nationalists were less eager to be brought into the fold. Hertzog invaded the Cape Province, stronghold of his chief opponent, Dr. Malan, and received a respectful hearing from the Nationalists there. The greatest victory for Fusion, however, was in winning the support of Tielman Roos and his followers, who upset the political apple cart in 1932. Mr. Roos reserved

the right of parliamentary criticism because of the smallness of the Opposition.

The recent drought, the appalling losses of stock, and the ensuing social and economic dislocation have served to concentrate attention on agriculture in South Africa. There has been a growing determination to work out programs of irrigation and veldt conservation, paid for out of the excess-profits tax on the gold mines, so that agriculture may be developed to provide a sound economic basis for the country when the mines are worked out. At the moment, the mortgage burden on farmers and the necessity of giving many of them a new start are urgent problems.

UNCERTAINTY IN INDIA

Dangerous as it is to generalize about Indian opinion, it is hard to escape the impression that interest in the White Paper proposals for a new Constitution has distinctly diminished. The various minorities and special interests have kept up their representations at home and in London, but at the same time what is perhaps intentional apathy has been growing. The change might be interpreted as a shift from political crusades and bargaining to speculation about underlying social and economic problems. (See the article on page 548 of this magazine.)

Civil disobedience, even of the individual sort recommended by Gandhi, has greatly diminished, and Gandhi himself since early November has been devoting his time almost exclusively to a tour of India on behalf of the Untouchables. He has been enthusiastically received and has collected substantial contributions in spite of the opposition of the orthodox Hindus. Jawaharlal Nehru, as his pamphlet *Whither India?* bears witness, has been urging attention to foreign revolutionary movements of readjustment. He would have self-conscious Indians drop their obsession with what he regards as relatively unimportant negotiations with Great Britain and concentrate on the study of the theories and practice of political, economic and social revolution elsewhere. He and Gandhi conferred during December over the inability of the Congress party to agree upon a new line of action. No results were announced, though Gandhi made the statement that he had given Pandit Nehru his power of attorney in politics. Thus, while the Parliamentary Committee and the Indian representatives in London have been hearing and withstanding Conservative criticisms of the White Paper Constitution, Indians have been divided among themselves. It may be that Nehru or the Congress can give Indian activity new directions of a sort in which constitutional arrangements will be secondary.

The Indian Reserve Bank Bill passed the Legislative Assembly at Delhi on Dec. 22. (See the article on page 552 of this magazine.) There was vigorous debate, particularly over the rupee-pound ratio, but the only successful amendment was one establishing a branch in London where Indians might be trained in international finance.

THE MALTESE CRISIS

The leading Nationalistic newspaper, *Malta,* was on Dec. 15 suspended under the Sedition Ordinance. Its editor, Dr. Mizzi, late Minister of Education, was indicted for printing matter likely to cause discontent or disaffection. He had republished an article from a Sicilian paper which contained unrestrained attacks on British rule in Malta.

French Premier Wins Budget Figh

By GILBERT CHINARD
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CONTRARY to general expectations, the Chautemps Cabinet succeeded in forcing its Financial Recovery Bill through the French Chamber of Deputies and the Senate in December, and thus averted a much-feared governmental crisis. With this major task accomplished, it would seem that the present Cabinet has a good chance of remaining in office longer than its two predecessors. Its existence, however, must still be termed precarious.

The Chamber's approval of the Premier's budgetary project was granted on Dec. 11, but only after important modifications in the article reducing civil service salaries had been accepted. Passage of the bill was further aided by the fact that the orthodox Socialist Deputies abstained from voting and left the debating hall in a body. Although the bill did not satisfy them, they did not wish to overthrow the government and thus play into the hands of the reactionaries.

When the bill reached the Finance Committee of the Senate, opposition developed immediately. Senators Régnier and Caillaux pointed out that the measures recommended were mere palliatives, and proposed, in addition to other modifications, to restore the cuts of 3 to 10 per cent in civil service salaries to which the Chamber had objected. But since such reductions had already caused the fall of two Cabinets and would surely have been rejected by the lower house, Premier Chautemps was forced to persuade the Senate to disregard the recommendations of its own committee. A mitting the weaknesses and deficie cies of his bill, the Premier ga warning that another Cabinet cris would endanger the financial stabili of the country and that the cuts government salaries, while small, re resented a concession and were t first the Chamber had been willing accept. Force was added to the arg ment by the fact that during the d bate the flow of gold from France i creased in an alarming fashion a that a large number of holders Treasury bills were presenting the for payment. The Senate, realizing t seriousness of the situation, accept the Premier's proposals by a vote 206 to 57, and on Dec. 24 the bill b came law upon a second reading in t Chamber.

The new bill provides for 4,632,00 000 francs in economies and new rev nue as against 4,788,000,000 fran originally voted by the Chamber (present the franc stands about sixte to the dollar). Since the expect deficit is estimated at 6,000,000,0 francs, the budget is hardly balance further measures now being studi by the government are to be subm ted to Parliament at an early date. order to relieve the strain on t Treasury and to consolidate the floa ing debt, both houses voted the iss of a loan of 10,000,000,000 fran Then, after authorizing provision funds for carrying on the governme during January and February, th adjourned until Jan. 9.

The adoption of these measures, imperfect and incomplete as they seem to some members of the Opposition, particularly M. Tardieu, has helped to allay the unrest which had begun to manifest itself among the farmers and workers. Denouncing the 800,000 civil servants who had threatened to strike rather than accept a pay cut, angry farmers representing 20,000,000 agricultural workers had been organizing to obtain what they believed were their rights. Holders of Treasury bills and short-term Treasury bonds, who for weeks had been redeeming their securities at the rate of 100,000,000 francs a day in excess of renewals, have for the most part now ceased their frightened activity. But the situation remains serious, as there are at least 15,000,000,000 francs in Treasury bills and 27,000,000,000 francs in short-term Treasury bonds still in circulation.

On the other hand, in spite of continued withdrawals of gold, the condition of the Bank of France is sound. During December the gold reserve declined from 77,078,000,000 francs to 76,944,000,000 francs, and since Sept. 7 the total outflow has been 5,333,000,000 francs. Although the present gold reserve is the lowest since April, 1932, the liabilities of the bank have decreased proportionately and the gold cover is still well over 79 per cent, or more than twice the legal requirement. In these circumstances it will be understood why the extensive withdrawals caused no real uneasiness in official quarters and that no breakdown of the franc was anticipated.

The balance of foreign trade, however, is still unfavorable. The total value of imports for the first eleven months of 1933 was 26,126,000,000 francs, while exports amounted to only 16,217,000,000 francs. This left an adverse balance of 9,909,000,000 francs, as compared with an adverse balance during the twelve months of 1932 of 9,500,000,000 francs. The French Government has consequently adopted severe restrictions in an attempt to redress the situation. A 25 per cent cut in import quotas voted last September went into effect on Jan. 1. Import licenses for certain products have been sharply increased. It is believed that these and similar measures, which apply to shipments from all countries, will provide the government with a bargaining basis and that negotiations to rearrange quotas and trade relations will be started at once.

It was no doubt because of the prominence of questions of foreign trade that Laurent Eynac, Minister of Colonies, speaking at the second Colonial conference, which met in Paris during the week ended Dec. 23, urged the production by the colonies of raw materials now imported from foreign countries. Figures for the first eleven months of 1933 show that French overseas dominions accounted for about 27 per cent of the national foreign trade. Imports from the colonies for 1933 were noticeably higher than those of 1932, although exports showed a slight drop in the same period.

FRENCH ARMY BILL

The debate in the Chamber on financial matters was unexpectedly and dramatically interrupted in mid-December when Minister of War Daladier introduced an army bill which was intended to insure full military strength to France during the "lean years" of 1935, 1936 and 1937, when the low birth rate caused by the World War would bring about a marked reduction in the number of young men available for support of the colors. According to the estimates of the French General Staff, the effec-

tives for these three years would fall from 250,000 to 116,000. The solution advanced by the military experts—a return to the two-year military service—had proved distasteful to Parliament and a large majority of the French people, and a substitute plan had been devised by former Minister of War Painlevé several months before his death. This scheme, which has been taken over by M. Daladier, consists of shifting the recruiting age from 20 years to 21 years 4 months at the beginning of the period, and in bringing it back by stages eventually to 20 years.

André Tardieu, René Martin and the Nationalists as a group fought this project vigorously because it admittedly would decrease the strength of the army early in 1934, and March, 1934, seemed to the leader of the Opposition a particularly critical date. Yet M. Daladier assured the Chamber that France was in a position to assure her security with an army of 470,000 men, and that 500,000 more would be quickly available. The new bill was adopted on Dec. 19 by the imposing vote of 449 to 147.

RAILWAY DISASTER

As a result of a railroad wreck at Lagny on Dec. 23, in which 200 persons were killed and 300 injured, six officials and employes of the Est Railroad Company were placed under arrest on Jan. 3, charged with involuntary homicide caused by negligence and failure to comply with regulations. It was maintained that the company had provided inadequate safety equipment and had failed to replace its wooden cars with steel cars, although an order to that effect had been issued months ago by the Ministry of Public Works. Spokesmen for the railroad pointed out that the annual deficit of French railways amounted already to more than 4,000,000,000 francs, which had to be met out of the State Treasury, and that hence they were at present unable to modernize all their equipment.

APPREHENSION IN BELGIUM

While the situation in Belgium has remained on the whole satisfactory, the country has been greatly concerned with developments beyond its borders. The government and the people followed with evident anxiety the conversations between François Poncet, French Ambassador in Berlin, and Chancellor Hitler, and only when the French Government declared unequivocally its opposition to any rearmament on the part of Germany did the Belgian attitude relax. The tension was particularly apparent in the speeches delivered in the Belgian Senate during the recent discussion of the defense bill. Senator Pierlot, reporter of the budget, pointed out once more the dangerous position in which Belgium would find herself in case of war. He urged strengthening not only the fortifications but also the effectives, so as to make available six active and six reserve divisions in an emergency. On Dec. 19 the Senate adopted the proposal of the government to appropriate nearly 760,000,000 francs (about $158,390,000) for national defense during the years 1934-1935, the Socialists alone dissenting.

During the discussion of the budget for foreign affairs, M. Hymans opposed a motion by the Socialist Deputy Brunfaut for the resumption of relations with Soviet Russia.

ate response by the spokesmen of the Japanese Naval Office, who declared: "In a changing world nations cannot remain bound forever by old agreements." If the Diet approves the budget, the Japanese naval strength will be raised to the 10-10-7 strength of the London Conference ratios. Hector Bywater, British naval expert, declares that the situation in the Pacific, as respects naval rivalry, bears "an ominous resemblance to that of 1920-21." It is frequently reported in the Japanese newspapers, although no official statement has yet been made, that Japan will, in fact, demand naval parity at the next conference. It is also being urged that naval limitation be kept separate from the political questions, the settlement of which at the Washington Conference was precedent to naval limitation. This might mean that Japan would like to scrap what is left of the Nine and Four Power treaties and yet at the same time secure from the powers with interests in the Pacific some pledge as to naval limitation. Such a separation of armament from political questions is not likely to be more successful in the future than it was two years ago at Geneva when proposed by the Americans. Meanwhile, the editor of the new edition of *Jane's Fighting Ships* estimates that Japan's new 8,500-ton cruisers will be by far the most powerfully armed cruisers in the world for their tonnage.

JAPANESE TRADE COMPETITION

The Osaka industrialists, although still confident that India could be brought to submission by means of the boycott—a weapon which in the hands of the Chinese only two years ago they regarded as sufficiently aggressive to warrant or justify military reprisals—agreed to leave to the Foreign Office the conclusion of the trade negotiations which began at Simla in September and thence were transferred to Delhi. Japanese officials had no desire for a trade war with Great Britain, as they fear that, once begun, it may result in a one-sided struggle to which Great Britain may bring many Western economic allies.

Viscount Ishii, upon his recent return to Japan, reported that in the West Japan was more feared for her cheaply manufactured goods than for her armaments. He stated that among the first questions asked him by President Roosevelt was one about rubber-soled shoes. Ramsay MacDonald was similarly concerned. Foreign Minister Hirota took the position that it was important to prevent the Indo-Japanese commercial treaty from lapsing, even if individual interests might be sacrificed. General Araki also stated that it was inadvisable that the commercial dispute with India should be allowed to develop.

On Jan. 3, after about three months of often acrimonious negotiation, an Indo-Japanese cotton agreement was concluded under which India will admit annually 400,000,000 yards of cotton piece goods and in return Japan will buy 1,500,000 bales of Indian raw cotton. In ratio of values the exchange is about 3 to 5, but Japan hoped to be able to equalize the situation by sales of other manufactured goods. The Japanese delegates had expected to profit by Anglo-Indian dissension, but found that they were dealing with Indian cotton manufacturers who were determined not to be ruined.

Earlier the Japanese Foreign Office had let it be known that bills would be introduced at the session of the Diet for the imposition of retaliatory tariffs on the products of countries which discriminate against Japanese goods. It was predicted that by April

1, Japan would have inaugurated a system of control over both exports and imports.

Japanese manufacturers are continuing to reap rich harvests from their trade boom. One rayon silk concern is reported to have cleared no less than 97 per cent on its capital from six months' operations; other rayon factories have done nearly as well. Large gains in the exportation of matches to China were also reported, while from Southern California came the complaint that the tuna fish industry, which California developed and in which it enjoyed almost a monopoly for twenty years, was rapidly passing into Japanese hands. While it costs the California packer $5 to place a case of tuna in the hands of the New York jobber, it was alleged that Japanese exporters, taking advantage of cheaper labor and cheaper tin cans, can sell a case in New York for as little as $2. In 1932, 200,000 cases were exported from Japan to the United States; the 1933 figure is 600,000 cases, more than one-third of the American market requirement.

RUSSO-JAPANESE RELATIONS

The Soviet Union withdrew its negotiators from Tokyo on Dec. 7, thus bringing to an end the futile conferences for the sale of the Chinese Eastern Railway to Manchukuo. Although Moscow at first seemed eager to sell, in the last two months it has been apparent that neither side had much interest in concluding a deal. The best offer made by Japan was just under $20,000,000 (gold), while the lowest Russia would consider was over $158,000,000. The six Soviet railway employes, arrested by the Japanese in October, have not yet been released.

A few days after the departure of the railway negotiators from Tokyo, the Japanese in Manchuria, with much ceremony, formally opened the new link in the 163-mile Lafa-Harbin railway, which joins the commercial and strategic centre of North Manchuria with the new ports of Northeastern Korea. It was predicted that within another year or two the Lafa-Harbin line would be welded into a unit by which Japan would be able to set down troops on the borders of Soviet Russia within three or four days after their departure from Japan.

Whether or not Japan desires a war with Russia some time in the future, it is evident that from the Japanese point of view it would be premature at the moment. Walter Duranty's interview with Stalin, published in *The New York Times* on Dec. 28, in which the latter was reported as having described Japan as a menace to Russia, was pooh-poohed by the spokesman of the Japanese Foreign Office. The Japenese called attention to the fact that at the present time Russia has east of Chita three or four times as many troops as Japan has in Manchuria.

Should the peace be broken in Manchuria, there will be a nice question for the international lawyers to decide. Which is the act of aggression—the extension of the Japanese railway system to the Siberian border, or the keeping of large masses of troops in Siberia which, if war were to break out suddenly, could not be transported from the West until long after the Japanese had already occupied all strategic points?

Rumors persist that within the next few months Henry Pu Yi will be crowned Emperor of Manchukuo. The new Constitution for the puppet State is now being drafted in Tokyo and is expected to be proclaimed soon, possibly on March 1, when the new political treaty will be signed.

The Brown Shirts Tighten Their Grip

By Sidney B. Fay
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Adolf Hitler's Brown Shirt army and Nazi party became virtually official organs of the German Reich on Dec. 1, when President von Hindenburg appointed Captain Ernst Roehm, Commander-in-Chief of the Storm Troops, and Rudolf Hess, deputy leader of the National Socialist party, to membership in the Cabinet as Ministers without portfolio. The decree, which proclaims "the unity of the party and the State," marks another step in the realization of the Totalitarian State.

The Nazi party was made a corporation in public law with its own jurisdiction over its members, similar to that possessed by the Reichswehr and the bureaucracy over their members. Special courts are to be created within the party and within the Storm Troops, which will adjudicate all violations of discipline and neglect of those duties with which their members are charged. The courts will have the right to impose sentences of confinement, and it was emphasized that membership in the privileged party or military organization implied a higher responsibility to duty and discipline. For ordinary crimes, however, the Nazis will remain subject to the regular courts.

The decree in effect put the Nazi party and the Storm Troops on the same basis as the army, the police and government officials with public and legal functions to perform. It stated that, as "the National Socialist party is the sole carrier of the German State idea," it was found advisable to admit the leaders of its two main divisions to the Cabinet, so that they might participate in the decisions of the government.

Captain Roehm, speaking a few days later to press correspondents, said that he would remain at his headquarters in Munich, and that the decree did not mean that the Storm Troops were in any way to be considered part of the German army of defense. "Adolf Hitler did not intend nor did he desire to rear the Storm Troops as the Reich's armed forces," he said. "That function is the sole province of the Reichswehr. The defense of the Reich's frontiers and the protection of its interests abroad concern the Reichswehr alone. It is the business of the Storm Troops, on the other hand, to anchor firmly the principle of National Socialism underlying the new State, and to undertake to train every German to become a living link in the new national community."

The Storm Troops, which were wholly unconnected with the Reichswehr, Captain Roehm stated, now number about 2,500,000. The active forces include all troopers up to the age of 35; the first reserves comprise those between 35 and 45; and the second reserves—the counterpart of the prewar Landsturm—take in men from 45 to 70. The troopers are not concentrated in barracks, nor have they a common mess; they receive neither

pay nor uniforms. Their purpose is primarily to educate men in the doctrines of National Socialism, and to serve as an offensive and defensive force against the internal foes of communism and Marxism.

German automobile owners also have been coordinated by being merged into a new German Auto Club and placed under the command of Major Adolf Huehnlein, leader of the National Socialist Motor Corps and chief of the motor division of the Hitler Storm Troops. The club will be divided into district and local organizations whose territory will be coterminous with the districts of the Nazi Motor Corps detachments. The officers of the subsidiary organizations, following the Nazi principle of "leadership," will be appointed by Major Huehnlein.

A revolution in German student life has been decreed by Dr. Oskar Saebel, Reich leader of the German Student Corps and of the National Socialist Student League. He ordered the immediate introduction of "the Storm Troop idea" into the students' organizations. Henceforth only Storm Troopers are to be appointed to positions of leadership in the student bodies. He added: "The time is not far distant when the German high schools will have no further need for people who are too genteel to take their place in the community of Storm Troops. Through rigid organizations in the meaning of the organizer of the Brown Army we guarantee to the Leader the constant and vigilant striking force of the young generation, on which rests the fate of Germany."

Bernhard Rust, Prussian Minister of Education, decreed on Dec. 8 that all applicants for teaching positions must have engaged for several months in *Gelaendesport,* a euphemism for military field drill, or have served in a labor camp. Thus they would have "an opportunity in non-academic surroundings to demonstrate their character."

THE REICHSTAG SESSION

On Dec. 12 Germany's new, all-Nazi Reichstag met, organized, and adjourned in seven and a half minutes. It was the shortest parliamentary session ever witnessed in Germany, or perhaps in any country. There were no speeches and the election of officers by block voting required less than five minutes. General Goering was re-elected President. The following Vice Presidents were elected by acclamation: Hans Kerrl, Prussian Minister of Justice; Hermann Esser, Bavarian Nazi leader, and Dr. von Strauss, former director of the Deutsche Bank.

The 659 Brown Shirts rose and sat down in unison when General Goering called for a vote. After cheers for the German people and for Chancellor Hitler, the session was adjourned subject to Goering's call. Of the two non-Nazi members, only Vice Chancellor von Papen was in attendance, his immaculate morning coat conspicuous amid the sea of Brown Shirts. Dr. Alfred von Hugenberg, the other "guest deputy" was excused from attending the session because of illness —so it was stated.

THE REICHSTAG FIRE VERDICT

The Supreme Court at Leipzig finally gave its long-awaited verdict in the Reichstag fire trial on Dec. 23. Marinus van der Lubbe, young Dutch brick mason and ex-Communist, who confessed that he had set the fire in the Reichstag Building, was found guilty of "high treason in conjunction with an act of insurrectionary incendiarism and an act of simple incendiarism."

He was accordingly sentenced to death. He did not appear to show any more interest in the verdict than in the long proceedings of the previous months. In the final days of the trial he slept in court for hours while the Chief Prosecutor was summing up the case against him and the other defendants, but frequently astonished all persons in the court room by laughing aloud while the defense lawyers were making their pleas. His family have petitioned President von Hindenburg for his pardon because of the unhappy circumstances of his youth and because he is only 17 years old.

Ernst Torgler, the German Communist leader, and the three Bulgarian Communists against whom the same charges were made, were acquitted. The Chief Prosecutor recommended that the three Bulgarians be acquitted, not because they were innocent but because the proof against them was insufficient. But he demanded Torgler's condemnation along with that of van der Lubbe, ending in this curious manner: "If I add everything together I come to the conclusion that in some sort of fashion Torgler was an accomplice in the deed. What his participation was in detail the trial has not revealed."

Herr Wilhelm Buenger, the presiding judge, showed, however, that in spite of all the political pressure of the Nazi press and the speeches of Goering and Goebbels, he still preserved a proper sense of justice. He declared Torgler as well as the three Bulgarians acquitted and said that the court had not been moved "by any emotion." To be sure, he did whitewash the National Socialists in regard to the suspicions raised abroad that they themselves had something to do with the fire. "One of the objects of the trial," he said, "has been to refute stories about incendiarism circulated abroad. The trial has absolutely rebutted these slanders. It has been proved that van der Lubbe's accomplices are to be found in the ranks of the Communists. Van der Lubbe worked with others—perhaps only a few. This has been confirmed by the testimony of the experts." But the court had been unable to discover who these accomplices were. Not all persons who have read the full proceedings of the trial will be able fully to agree with these statements of Dr. Buenger. The main fact, however, is that he did not allow his opinion that van der Lubbe had accomplices and that these were Communists to interfere with his sense of justice in declaring Torgler not guilty.

Opinions abroad concerning the decision varied widely. Arthur Garfield Hays, the American lawyer, who followed the trial closely and was a member of the unofficial commission of foreign jurists, was quoted as saying: "In view of the present judgment I am constrained to say that this court has been fair. In the midst of political turmoil, in spite of the demands of the Nazi leaders, these old-time judges refused to act as the tools of those in control. At the same time, this case is not necessarily at an end. We may find these men charged again with treason, where the case will be a political frame-up, with the defendants wholly in jeopardy because of their opinions and associations."

The general opinion of the British press was one of rejoicing at the triumph of justice and a feeling that it would probably do more to improve British opinion of present-day Germany than any single event since the Nazi revolution. "The honor of the court, and with it German justice, has been fully vindicated," declared the London *Daily Telegraph.* Miss Ellen

Wilkinson, who helped to organize the commission of foreign jurists, declared: "We consider that the world-wide public opinion aroused for the defense as a result of the Brown Book and by the legal commission made it impossible for the Nazis to obtain convictions. These prisoners have been tried, not by the court in Leipzig, but by the court of world opinion." The *Daily Telegraph,* however, said: "This verdict should be a wholesome lesson to busybodies at least to suspend their affronts to foreign countries until the presumed miscarriage of justice has occurred." Sir Austen Chamberlain, not noted for any special friendliness for Nazi Germany, describing the commission before the House of Commons as "something which calls itself a commission," said its inquiry "seems to me the grossest impertinence which the citizens of one State can commit regarding a friendly State."

The truth about the fire still remains something of a mystery. If van der Lubbe must have had the assistance of others in setting the fire, as some of the experts testified, were they Communists, as Judge Buenger stated, or Nazis, as many foreigners suspect? Perhaps the truth will never be known, unless the Dutchman shakes off his stupor and abandons his tale of sole guilt, or unless some of the alleged accomplices, in a moment of unguarded boasting, let the cat out of the bag.

GERMAN RELIGIOUS FREEDOM

The determined resistance of the old-line Evangelical pastors, organized in a Pastors' Emergency Federation representing some 3,000 supporters of Dr. Friedrich von Bodelschwingh, secured a further victory on Dec. 8 in the decision of the German Christians that they would dissolve as a church party and remain merely a "movement." This transformation from a party to a movement is more than a formality. The German Christians, headed by Dr. Hossenfelder, Bishop of Brandenburg, were able in September, by mobilizing the resources of the Nazi party, to secure the election of Dr. Ludwig Mueller as Reich Bishop and to put the swastika above the Christian cross. Their disappearance as a church party therefore marks the failure of efforts to regiment the religious thought of the German people by force, and symbolizes a victory for liberty of conscience. The fighting Protestant pastors won where Germany's former political leaders failed.

Realizing the strength of the old-line Protestant opposition, Dr. Mueller then sought to conciliate his opponents by issuing a new fundamental church law. This eliminated from the church constitution the so-called "Aryan paragraph," whereby the German Christians had sought to oust from the pulpit all Christian clergymen having Jewish blood and to segregate all Christians with Jewish blood in a kind of ghetto church. This removed the main rock of offense at which the Protestants had taken umbrage. But it did not satisfy them, because Dr. Mueller took two other steps which they felt restricted religious liberty.

Dr. Mueller sought to reintroduce the Aryan paragraph through the back door—through regulations covering the admission of students to the theological seminaries in which pastors must be trained. These regulations limit the number of non-Aryan students to 1½ per cent of the total student body. He also issued a decree ordering the incorporation of the Evangelical Youth Movement, embracing a million or more Protestant

youths, with the Hitler Youth under the direction of Baldur von Schirach. In his agreement with Herr von Schirach Dr. Mueller arranged that Evangelical youths under 18 would join the Hitler Youth and wear its uniform. Two afternoons a week and two Sundays during each month would be reserved for pedagogic and church work by the Evangelical organization. Baldur von Schirach was to take charge of all sports, entertainment and cultural work, while the church retired to "its genuine field of proclaiming the Gospel to the youth." A joint announcement by Dr. Mueller and Herr von Schirach added that henceforth the church was freed from burdens imposed on it by the Marxist liberal State, and that on the other hand the church "recognizes the Hitler Youth as the carriers of the State idea."

This again caused consternation among the Protestants, all the greater because there were grave doubts of Herr von Schirach's church loyalty. Accordingly a delegation representing the Pastors' Emergency League sent an ultimatum to Dr. Mueller, informing him that unless his church ministry was reformed in a manner that would insure real peace in the church they would emphatically announce the withdrawal of their confidence in his authority.

The Roman Catholic youth of course were not included in Dr. Mueller's decree. Their independence is guaranteed by the concordat with the Vatican, but their exact status is one of the points still at issue which prevent the concordat from taking practical effect. The Catholics, however, were greatly encouraged in their struggle against Nazi control as a result of the determined defiance shown by the Protestants. The German Catholic Bishops remained firm in their demands for non-intervention by the Hitler State in the activities of the non-political Catholic societies and charitable organization, in accordance with the provisions of the concordat. Cardinal Faulhaber of Munich went further, and in a series of Christmas sermons denounced vigorously not only the racial discrimination of the Aryan paragraph, but the whole Nordic doctrine of the Nazis. He attacked without mincing his words the Nazi sterilization program, and deprecated the prevalent elaboration of "myths" concerning the ancient Germans.

An equally vigorous attitude was taken by Bishop Bornewasser of Trier. Friedrich Florian, Nazi leader of Düsseldorf, had branded as traitors to the cause of German unity any persons who solicited Germans to read Catholic or Protestant newspapers. In a fiery rescript, openly defying Herr Florian, the Bishop called on the members of his diocese to keep faith with the Catholic press. "In full consciousness of my holy episcopal duty and with deep anxiety for the intensification of Catholic life through the medium of truly Catholic newspapers, I cry out, 'Catholics, read Catholic newspapers!' The church cannot in any case surrender this most modern means of pastoral care."

THE NAZIS IN AUSTRIA

The Nazis in Austria during December added to their various outrages and demonstrations, but without serious threats to the security of the Dollfuss government. On Dec. 8 about 1,000 Nazis conducted a "silent demonstration walk" through the principal street of Vienna and scattered paper swastikas. They were dispersed by the police, and about 150 were arrested. On Dec. 17, tear-gas

bombs were exploded in a large Vienna department store owned by Jews, causing a panic but no deaths among the crowds of Christmas shoppers.

In order to restrict Nazi activities further the Austrian Government on Dec. 4 arrested Alfred Frauenfeld, who had been the representative of the German National Socialists in Vienna; a few days later his brother, Edward Frauenfeld, was also taken into custody. It was surmised that these arrests might not be unwelcome to Nazis in Austria who would thereby liberate themselves more completely from Hitler's influence and form a regenerated and legal Austrian Nazi party which might possibly come to some working agreement with Chancellor Dollfuss. Herr Frauenfeld's successor as leader of the Austrian Nazis is an active anti-Semitic lawyer named Dr. Riehl. Alfred Frauenfeld and a few other Austrian Nazis were set at liberty on Jan. 1 in agreement with the Bavarian authorities, who released Austrian prisoners.

As a check on political demonstrations and outrages, Dr. Dollfuss on Dec. 13 ordered that no reports concerning them were to be published henceforth in the newspapers except what was officially stated in the government's communiqués. No comments or additional facts may be printed. The order increased the difficulties of the foreign press correspondents in their efforts to present a true picture of events in Austria. The government also forbade for a year the sale and circulation in Austria of German Nazi newspapers like the *Voelkischer Beobachter, Der Angriff,* and the *Berliner Boersen Zeitung.*

In an episcopal letter read in all the Catholic churches on Dec. 24 the Austrian Bishops denounced the "false doctrine" that all power emanates from the people, and advised the Catholic population of Austria to support the Dollfuss government against all enemies, particularly the Nazis. Directing attention to the idea that Austria stands in the centre of world interest as a symbol and example of a Christian government, the statement declared: "Austria wants again to be what it was through the centuries—a bulwark of world peace, a centre of Western culture, and a foundation for the Christian faith." The fact that Austria is 95 per cent Catholic indicates the political importance of the episcopal letter as a further support of the present régime.

In an effort to attract wealthy foreigners to Vienna, Dr. Dollfuss issued a decree on Dec. 8 that foreigners who are deemed sufficiently wealthy and who come to Austria to spend their money, may, at the discretion of the tax officials, be freed from practically all liability to taxation. This exemption is to be granted not as a right, but as a favor. The establishment of such a "taxpayer's sanctuary" ought in these days of heavy taxation to prove popular and help to restore some of the former glory and glamor of Vienna.

The year 1933 closed with improved prospects for Austria's foreign trade. The shrinkage of exports, which amounted in the first quarter of 1933 to 16.5 per cent, compared with the same period in 1932, was only 1.5 per cent in the second quarter. In the third quarter Austria exported 17 per cent more than in 1932, and the aggregate of the first eleven months was slightly higher than in 1932.

Conservative Triumph in Spain

By William E. Lingelbach
Professor of European History, University of Pennsylvania

Spain's newly elected Cortes, which met on Dec. 8, is preponderantly conservative in character, especially when compared with its predecessor, the Constitutional Cortes. Socialists, who had 114 Deputies and were the strongest single party in the old Cortes, now have only 58; the Radical Socialists, who had 55, were entirely wiped out and are without representation in the new body. The Catalan Left has been cut in half, and Premier Azaña's Acción Republicana has been reduced from 30 to 5, the ex-Premier himself escaping defeat only through the support of the Socialists. On the other hand, the decided increase of the Radicals from 89 to 105 makes Señor Lerroux's the strongest party in the Assembly, and points to him as the logical leader of the government. Neither the Right nor the Left, certainly not the latter, would have any chance of carrying on the government without the support of the Centre, which commands a balance of power.

According to the official announcement of the Minister of Instruction, the 473 Deputies are distributed roughly into three groups—the Right, Centre and Left. Parties of the Right muster 207, consisting of 88 Agrarians, 62 Popular Action, 43 Monarchists or Traditionalists and 14 Basque Nationalists; the parties of the Centre, 170, made up of 105 Radicals, 25 Catalan League, 18 Conservatives, 9 Liberal Democrats, 8 Independent Republicans, 3 Progressives and 2 Federalists; the parties of the Left, 94, including 56 Socialists, 19 Catalan Left, 6 Galician Republicans, 5 Republican Action, 4 Independent Socialist Radicals, 3 Catalan Socialist Union and 1 Communist. Two Deputies have no definite party affiliations.

The control of the Left, exercised for two and a half years, has been definitely broken in a wave of national opposition to Azaña's Socialist Republican policies. As early as the Spring of 1932, the Catholic opposition showed signs of becoming politically conscious of its strength. A society known as the Acción Católica was organized for the defense of the church, with a parallel organization, the Acción Popular, to champion its interests in the political realm. All supporters of the church, regardless of political affiliations, were invited to join its standard, and even some Right wing Radicals gave it their support.

José Maria Gil Robles, the brilliant young editor of the principal Catholic journal, *El Debate*, organized the C. E. D. A. (Confederación Española de Derechas Autonomas) early in 1933 for the purpose of securing repeal of anti-clerical legislation, revocation of agrarian reforms, modification of the excessive concessions to labor, and, if necessary, a thoroughgoing revision of the Constitution. Catholics and Conservatives, he claimed, should accept the republic and seek redress of their grievances through political and constitutional means, the form of government being unimportant in the face of the great religious, social and eco-

nomic questions that confront Spain.

Quite apart from its religious aspects, the movement gained strong support for economic reasons from the business elements of the nation. Chambers of Commerce, merchants, industrialists, bankers, landlords and professional groups objected vigorously to the excessive concessions made to labor by the Azaña government. They took particular exception to the Labor Contracts Law, one section of which forbade the bringing of laborers from any other community until all those of a particular occupation in the municipality had received employment. Aimed at the power of the local political boss *(cacique)*, it nevertheless aroused the anger of the middle class. Equally unpopular with these groups was the legislation on labor unions, unemployment, workmen's insurance, the eight-hour day and the 25 per cent increase in pay for overtime. They protested against the lavish expenditures on public works and the general extravagance of the government. Opposition to the labor laws was further increased by a strong Socialistic bias in the administration through the power conferred on the Labor Minister and on the mixed juries in labor disputes. For political purposes, these elements of the Opposition organized a central committee in the Summer of 1933. Amply supplied with funds, it became one of the most powerful agencies in the nullification of labor and other radical legislation, and in the final defeat of the Azaña régime.

That the new Cortes represents more nearly the opinions and wishes of the population was evident not only from the election returns but also in the light of the established traditions and characteristics of Spanish life and history. If it proceeds with moderation in securing the proposed modifications of the anti-clerical laws, land reforms and educational measures, the prospects of the continuance of the parliamentary republic seem excellent. This is the more true because nearly all the parties of the Right have accepted the republic, a course in which they have the full endorsement of the Vatican. According to the *Osservatore Romano,* whose opinions are echoed by the Spanish Right Wing press, notably *El Debate,* Catholics need find no obstacle to their acceptance of republican institutions and collaboration with the republic, provided the frankly anti-clerical attitude of the government is abandoned and the church is given an "opportunity to live in the Spanish Republic with dignity, respected in its rights and the exercises of its divine mission."

In conformity with these policies, the Right decided to support the Ministry of the Conservative Centre under the veteran Radical leader, Alejandro Lerroux, to whom President Zamora confided the task of forming a Cabinet after Prime Minister Martinez Barrios resigned on Dec. 16. Among the leaders called to the National Palace for consultation on the political situation was José María Gil Robles, organizer and head of the Catholic Acción Popular. Despite his preference for a Fascist dictatorship of the Right, he agreed to cooperate with the Radical leader, thus carrying the powerful Catholic political organization into the republican fold—to the disgust of the Royalists.

The meeting of the Cortes on Dec. 8 coincided with an Anarchist-Syndicalist insurrection which created a state of anarchy and terror, especially in Catalonia, Andalusia and Estremadura. The red and black flag appeared; convents and churches were attacked; telephone and telegraph lines were cut

and railroads torn up, service being interrupted on trunk lines and general alarm caused. For five days the insurrection continued; nearly 100 persons were killed and many injured before the government forces gained the upper hand. Fortunately, the Socialists refused to join the movement, and the general strike called by the Syndicalists proved ineffective when the failure of the other revolutionary activities appeared imminent.

DEATH OF MACIA

Colonel Francisco Macia, the President of Catalonia, leader of the Esquerra party and an ardent champion of Catalan autonomy, died on Dec. 25 at the age of 74. Although his party suffered a severe defeat in the national elections, obtaining only twenty-two seats as against twenty-five for the Conservative Opposition, his personal popularity continued, and more than 1,000,000 people attended the funeral. Colonel Macia was one of the most picturesque leaders of the republic, and it was believed that his death would seriously injure the chances of the Catalan Nationalists in the State elections on Jan. 14. For the present, Juan Casanovas, the Speaker of the Catalan Parliament, succeeds him as President.

SPAIN'S FOREIGN TRADE

Like other countries, Spain is suffering from the depression and there is a strong movement for further control of trade through a system of import quotas. That this will seriously affect trade relations with the United States is evident. During the last nine months the imports from this country amounted to $19,000,000 as against $8,000,000 worth of goods taken by us from Spain. Authority to apply the quota system has, according to the *Official Gazette,* been conferred upon the Minister of Commerce, to be used at his discretion. In the meantime, the Spanish Growers and Exporters Federation has entered a vigorous protest against the smallness of the quota on Spanish wines — 350,000 gallons —allowed by the recent agreement with the United States.

THE ITALIAN CORPORATE STATE

Following up the decision of the Grand Council to establish an Italian Corporate State, Mussolini has issued an order conferring upon the corporations or guilds the power to make laws on all economic matters relating to their particular activities. Laws governing agrarian interests will thus be made by the agricultural guilds, in which landowners, agricultural laborers and the State are represented. The silk, steel and other industries will regulate themselves in similar fashion. Even power to fix the selling price of commodities in their respective fields is conferred upon the corporations, which are freed entirely from political and parliamentary control. On the other hand, their decisions and enactments must be approved by the Grand Council and the Duce, who act as a coordinating body for the collectivist activities of the new Corporate State.

According to the proponents of the new order, which, we are told, is the result of seven years of study and experimentation, the Corporate State holds to a middle course between liberalism on the one hand and Marxian socialism on the other. It establishes a balance between private initiative and the interest of society as a whole, or, as Mussolini puts it, "retains and protects private property but elevates its use to social functions, and directs private initiative toward the needs of the national life and economy." The

present Chamber of Deputies, which met on Dec. 11 for the Winter session, will be superseded, and, unless it makes an effective fight for its existence and the preservation of its shadowy prerogative, that session will, in all probability, be its last.

Mussolini, replying to the suggestion that he was trying to extend the Fascist system to other countries, declared that he has a big enough job to establish it in Italy. On the other hand, if by fascism is meant the reconciliation of capital and labor, then, he said, "fascism is an exportable product," which has already gained recognition to a greater or less degree in many countries. The results of the recent elections in Spain were heralded by the Italian press as conclusive proof of strong Fascist tendencies in that country, while the rapprochement between the United States and Russia was interpreted by the Duce as another example of the working of the Fascist idea.

Meanwhile, the pressure of competition for trade in the world markets continues to bear heavily upon Italy, with her relatively slight resources in raw materials. Exports for the third quarter of 1933 declined more than 15 per cent below those of the corresponding quarter of 1932, while imports increased nearly 6 per cent. For the first time in recent years, an unfavorable trade balance exists. Speaking before the National Foreign Trade Commission, Signor Alberto Asquino, the Under Secretary of Corporations, declared that Italy was losing ground in foreign trade in competition with the United States, Great Britain and Japan and that vigorous measures were necessary to save the situation.

Drastic action had already been prepared by Mussolini. In a sweeping decree he ordered the reduction of wages, rents and prices similar to the cut of 1930, when salaries and prices were reduced between 12 and 14 per cent. Since the reduction of wages will lower the cost of production, it is hoped that Italian foreign trade will thereby be enabled to withstand the terrific pressure of trade competition from countries off the gold standard. The order appealed directly to the patriotism and self-sacrifice of all Italian wage-earners, upon whom this further lowering of the standard of living must inevitably fall. Fortunately there is a very effective distribution of work under the Fascist régime. Despite the depression, statistics of unemployment show an actual falling off in the number of jobless during the last quarter of 1933, marking a decline from the peak of 1,300,000 in 1931 to 907,463 at the beginning of October, 1933.

Estimates for the annual budget for the year beginning July, 1934, reveal a prospective deficit of 2,974,000,000 lire ($156,527,568 at par) notwithstanding cuts in the military items made possible by the use of unexpended balances. Nevertheless, the position of the Treasury is sound, the confidence in the credit of the government being again revealed by the prompt over-subscription of the large bond issue of the Piedmont Telephone Company, the first of the kind in which principal and interest are guaranteed by the government.

Much notice has again been given to the advantages of large families, experts finding, so the Italian press asserts, that children of a numerous family are more self-reliant and enterprising than children of small families. For five days during the first week of December, ninety-three mothers, who had given birth to a total of 1,288 children, were fêted in Rome.

Assassination of Rumania's Premier

By Frederic A. Ogg
Professor of Political Science, University of Wisconsin

A Cabinet crisis, a general election and an effort to break up Fascist organizations, capped by the assassination of Dr. Ion Duca, the Premier, gave Rumanian politics an exceptionally exciting aspect in November and December. As recorded here last month, the National Peasant Cabinet of Alexander Vaida-Voevod gave way on Nov. 15 to a government formed by Dr. Duca and drawn from the Old Liberals, direct descendants of the Liberal party which ruled the country for long periods before its loss of power to the National Peasants in 1928. Writs for the election of a new Chamber of Deputies were issued promptly, and after a rather colorless campaign the polling took place on Dec. 22. Some 4,000 candidates, sponsored by sixteen different parties, contested a total of 387 seats; and, as usual, the fight was essentially between the government party on the one hand and the field at large on the other.

Under the peculiar Rumanian electoral system, the party polling the largest popular vote, provided that the number be as much as two-fifths of the whole, is entitled to two-thirds of the seats in the Chamber. No government party has ever failed to meet this condition, assuring it of continuance in power, and on the present occasion the Old Liberals met it with a wide margin. Polling more than 54 per cent of the popular vote, they captured a total of 303 seats and followed this up by winning all but six seats in the Senate in elections held on Dec. 24. The National Peasants, now led by Dr. Miholake, were a poor second, with only twenty-nine seats in the Chamber. There were the usual reports of strong-arm tactics employed by the government's supporters and also the usual assertions by government spokesmen that the elections had been entirely "fair."

The most exciting political activities of the period arose out of the effort of the Duca government to curb the violence and lawlessness of Fascist and anti-Semitic elements, particularly those of an organization, or party, modeled on the German National Socialist Storm Troopers and known as the Iron Guard. On Dec. 9 these efforts culminated in a decree dissolving the Iron Guard, canceling its candidates from the lists and prohibiting meetings, publications and other activities. Stout resistance was offered, and in less than twenty-four hours no fewer than 3,500 suspected adherents were arrested, even though the founder and leader, Corneliu Codreann, remained at large. On Dec. 12 General Cantacuzenu, head of one of the country's great aristocratic families and avowed aspirant to the rôle of the Hitler of Rumania, stirred nation-wide feeling by publicly threatening to shoot Premier Duca "like a dog" because of his tolerant attitude toward Jews and his treatment of the Iron Guard.

Fulfillment of this threat fell to a more obscure person. As the Premier

waited at the railway station in Sinaia, on the evening of Dec. 29, for a train which was to take him back to Bucharest from a conference with King Carol, he was fired upon by a former university student and killed instantly. The assassin, declaring himself an ardent disciple of Hitlerism, boastfully explained his act as one of vengeance directed against Duca not as Premier or as Liberal leader, but solely as "a friend of the Jews." Calling Constantine Angelescu, Minister of Public Instruction and deputy leader of the government party, to the palace at Sinaia, the King invested him with the premiership. Martial law was proclaimed in all the principal cities; a strict press censorship was established, and 1,400 additional actual or alleged members of the outlawed Iron Guard were arrested, including General Cantacuzenu. A police announcement of Dec. 30 indicated evidence of an Iron Guard plot to assassinate all officials held responsible for the decree of dissolution, with Foreign Minister Titulescu's name standing next to that of Premier Duca.

BALKAN PEACE MOVES

Six major wars have started in the Balkans in scarcely more than half a century, and political weather prophets commonly look upon that section of Europe as the most prolific source of international trouble. Of late, however, while storm-clouds have been rushing across the western sky, especially since Hitler's rise to power, the Balkan horizon seems to have been clearing. A fourth Balkan conference, held at Saloniki from Nov. 5 to 11, drafted and adopted a plan for economic cooperation based on a system of preferential tariffs, declared for a general scheme of non-aggression pacts and issued a message to the Balkan peoples affirming that the year 1933 had been characterized by a strengthening of the spirit of solidarity and cooperation among the Balkan nations, and even going so far as to assert that the diversity of views which still reveals itself is only a weak echo of old situations and disputes.

The conference also expressed deep satisfaction with a round of "conversations" that for some time had been going on among Balkan monarchs as well as their Premiers and Foreign Ministers. A short time previously King Carol of Rumania had conferred with King Boris of Bulgaria aboard a boat in the Danube. Somewhat later King Alexander of Yugoslavia consulted with King Carol at Sinaia and with King Boris at Varna. More recently, on Dec. 10-13, Belgrade flew the national colors of Bulgaria and heard the Bulgarian national anthem for the first time in more than two decades when King Boris and Queen Joanna arrived from Sofia on a visit to King Alexander and Queen Marie.

"The visit of our sovereigns to King Alexander and Queen Marie," declared the government newspaper *La Bulgarie*, "is more than a simple act of courtesy. It closes one period and opens another for these sister nations." There is reason to believe that this was more than a mere rhetorical outburst, and that the series of royal courtesies and conversations thus lately absorbing attention really betokens a new orientation in Balkan politics. The meetings have not been mere social affairs, but have been utilized for earnest discussions of weighty matters. Formal treaties have not been signed; that is the business of Ministers and will require more time.

In a group of countries in which monarchy is still strong, and with a trio of sovereigns in power who are

young, vigorous, ambitious and at least moderately capable, it may well happen that important lines of national and international policy will prove to have been fixed by the sovereigns themselves. There is growing discontent with a post-war régime under which three or four great powers presume to rule. There is also increasing realization that in the long run the Balkan States will have to work out their own salvation. This, together with common experiences resulting from economic depression, is unquestionably creating a new and friendlier atmosphere in which three monarchs with some claim to statesmanship are feeling their way toward a better order of things for their long tormented and unhappy corner of Europe.

THE YUGOSLAV DICTATORSHIP

There is reason to believe that King Alexander of Yugoslavia, whose forty-fifth birthday was celebrated on Dec. 17, is no less devoted to the interests of international peace than are his royal confrères. As the sole surviving absolute monarch in all Europe, he stands, however, in matters of domestic government in a class by himself. A close study of the man, his ideas and his techniques, has lately been made by a young American of Slovenian extraction, Louis Adamic, who writes engaginly in the current number of the *Yale Review* on "The King Business in the Balkans."

From the account there given it appears that the displacement of parliamentary government at Belgrade by royal dictatorship in 1929 was in line with the entire development of Alexander's political ideas from even before the day when, in 1914, he pushed aside his simple but lofty-minded father, King Peter, and made himself Regent. As Regent, and still more as King after 1931, Alexander had little direct control over affairs. His people were wedded to their new post-war democracy, even if they are not very adept at operating it, and the Constitution of 1921 gave the monarch scant power except as commander-in-chief of the army. Parliament, with its two dozen parties, was, however, "a circus and a madhouse"; politicians, fighting for the fattest positions, came and went, usually managing to bear off enough from a period in office to build themselves palaces in Belgrade or retire to the Riviera; cliques, conspiracies, assassinations, scandals kept the country in bad repute with all who knew what was going on within its borders.

In these troubled waters Alexander fished assiduously and cleverly until, in January, 1929, the situation was ripe for a coup for which he had long been preparing. Without warning he issued a manifesto abolishing not only Parliament but the Constitution; surrounded by his junta and backed by the army, he leaped to the saddle as dictator. To the foreign press it was explained that the arrangement was only temporary. While months and years rolled by, however, the régime moved from one act of tyranny and terrorism to another, and although in 1931 pressure from Great Britain and France prompted a nominal restoration of Parliament, it has since become apparent that this was only a gesture and that, as Mr. Adamic says, the monarch "had planned to establish absolute rule from the beginning, very probably even before he became King."

"There is no doubt," Mr. Adamic quotes a high official at Belgrade as saying, "that the King believes his kind of rule, with him as ruler, is the best rule Yugoslavia could have. He undoubtedly has done things that are

good. For instance, he put efficiency into government offices. But everything that is wrong with the country and his régime he blames on the perverseness of the people, the demagogues and outside influences, such as the present world-wide economic crisis." It is a way that dictators have.

The King, to be sure, has his qualities. He is not impressive physically, though by wearing an army officer's uniform almost constantly he partly conceals the fact. He is superstitious and perpetually in fear of assassination. But he is well informed on many subjects, a resourceful military commander and a genius at political intrigue. He works hard—from 8 in the morning until 10 in the evening when in the capital—and evidently considers the laborer worthy of his hire, since in the palmy days when Ministers were enriching themselves by more or less devious methods he got his own civil list pushed up to 70,000,000 dinars, or over $1,000,000 a year—more than the salary or allowance of any other ruler in the world, crowned or uncrowned, except the Emperor of Japan. Accentuated by an acute nervous disorder, his moods are many. Sometimes he is in towering rage; again he weeps hysterically. But usually he has command of himself and is not only approachable but hospitable and democratic. Mr. Adamic, when calling on him, found him characteristically occupied at the telephone directing a sham debate on the budget in the sham Parliament, "ordering some of his puppets to orate (lamely and stupidly, of course) against the régime and others to reply brilliantly for the régime."

NEW POLISH CONSTITUTION

After years of preparatory work a new Constitution for the Polish Republic was approved at a meeting of the Government party in Warsaw on Dec. 15 and later in the month was submitted to the Constitutional Committee of the Sejm. As was to be expected, in view of the wide reaction of Continental Europe in these days against representative government, and in view further of Poland's own acceptance since 1926 of a military dictatorship, the instrument frankly discards parliamentary democracy in the interest of strong executive rule. "Not parliamentary democracy," said the Deputy Speaker of the Sejm when presenting the draft, "is the Constitution's object, but 'strong institutions.'"

However, there is still to be a two-chambered Parliament. The lower house, or Sejm, will be chosen by popular vote for five years, as now. The upper house, or Senate, instead of being elected by the people as at present, will consist of (a) forty members appointed by the President of the republic and (b) eighty others chosen by a war veterans' electorate consisting exclusively of holders of the military decorations Virtute Militari and Independence Cross given for services rendered in Poland's struggle for independence. The Senate will have equal rights with the Sejm except in initiating bills. But both houses will be subordinated to the Executive.

A powerful Executive, as already indicated, is the outstanding feature of the plan. When the post-war Constitutions of Central Europe were adopted, Estonia and the German *Laender* provided for no titular Chief Executive at all, and in all other cases, except perhaps Germany, the President (elected in some instances by the Legislature and in others by the people) was given only the nominal powers commonly belonging to the titular Chief Executive under a Cabinet system of government.

Poland is one of several countries, however, in which the Executive has in practice gained enormously at the expense of the Legislature. Dictatorial power, although emanating in reality from Marshal Pilsudski as War Minister, has been exercised in form through the President; and now, in the new Constitution, it is proposed to regularize matters in a fashion by assigning the power directly to that official. Pilsudki's age and health mean that his hand will presently be withdrawn from the control of affairs. Before that happens, the continuance of strong Executive government is to be made a certainty.

To begin with, the President is no longer to be chosen by the National Assembly (composed of Senators and members of the Sejm) as now. Instead, the incumbent of the office will himself put up a candidate; an "Assembly of Electors," consisting of the Speakers of the two houses, the president of the Supreme Court, the supreme commander of the army and seventy-five persons designated by Parliament from its own membership, will make a nomination; if the same person is nominated by both authorities, he will automatically become President for the regular seven-year term; if different persons are nominated, the people at large will choose between them.

Once elected, the President will be little less than a "constitutional" dictator. He will appoint the Premier and other Ministers, who will be responsible only to him (not to the popular branch of Parliament as Cabinet government requires); he will have full power personally to dissolve Parliament and to veto any of its acts. The two houses may demand the dismissal of a Minister, but no machinery is provided by which the demand can be enforced. In short, Parliament will be but a subordinate feature of the system; the President will be the real governing authority, with power to name his successor except as mildly qualified by the arrangements described above. Dictatorships have thus far existèd outside, if not upon the ruins of, written Constitutions. They are now beginning to entrench themselves inside the breastworks of the fundamental law.

POLISH-GERMAN RELATIONS

Discussions in November between the Polish Foreign Minister, M. Lipski, and Chancellor Hitler of Germany looking to a non-aggression agreement between their countries has stirred much unfavorable comment in some quarters of Europe, particularly in France. The willingness of Warsaw even to talk about such a rapprochement has seemed to the French equally incomprehensible and blameworthy as being a repudiation of past Polish policy and full of danger for the peace of Europe. More specifically, the critics make two charges: first, since Poland has just concluded a non-aggression pact with the Soviet Union and followed it by helping Rumania to do the same thing, it would be strange for her to enter into relations with Germany which could hardly fail to be at Soviet Russia's expense; and second, that the proposed agreement represents a sinister attempt to drive a wedge between France and her Eastern ally.

From Polish semi-official sources have come explanations which, as pointed out editorially in the *Manchester Guardian* (weekly edition) of Nov. 24, would seem to constitute an effective answer, even conceding the right of France to seek to frustrate the project. For one thing, it has been made clear that neither party expects any agreement that may ensue to re-

move all differences between Warsaw and Berlin. In particular, questions of boundaries are excluded. Germany is not expected to renounce her ultimate claim to large slices of Polish territory; certainly Poland, on her part, has no idea of yielding anything on this score. On the other hand, there are weighty differences upon which an understanding is immediately practicable. One of these is the eight-year commercial war between the two countries which a treaty of 1929 failed to terminate because of Germany's unwillingness to ratify it. Another is the troublesome question of the treatment of minorities.

Apropos of suggestions from Italian and other sources for reorganizing the League, the *Gazeta Polska,* which invariably speaks for the Warsaw government, has indicated strong disapproval, save on one condition; namely, that any reconstruction undertaken be in the direction of giving greater weight to the smaller powers. "The League is a failure," the journal declares, "not because Germany and Japan have departed and the United States is outside, but because it worked on a wrong principle, the hierarchy of the large powers dictating to the smaller. It has become a windmill grinding empty phrases, unable to realize President Wilson's plan of progress and peace. It is not too democratic. * * * The smaller countries are used as pawns in the complicated game of the big powers. * * * If the Geneva windmill is still expected to produce flour, there must be a new orientation among all the members, for the great ones are weaker now and the small ones are much stronger."

"REVISION MEANS WAR"

Not the least among reasons leading Yugoslavia and other States of Southeastern Europe to make fresh overtures to one another in recent weeks is the fact that the ghost of revisionism is again stalking through Europe." As usual," comments *The New York Times* correspondent at Belgrade, "whenever this spectre walks, the Czechoslovakian and Rumanian Foreign Ministers, Dr. Edward Benes and Nicholas Titulescu, chief diplomats of the Little Entente, have boarded Pullmans to make countermoves in various European capitals."

After a conference between these two leading figures at Kosice, Czechoslovakia, on Dec. 10, M. Titulescu issued a statement which for plainness and bluntness certainly left nothing to be desired. "Inasmuch as there has been so much lying about this subject," he said, "it cannot be held against us if I proclaim in my name and in the name of Dr. Benes: 'Revision means war.' I do not want war, but for that very reason I do not want revision. If some one wants revision and war, we will not be intimidated and will be strong enough to repulse such an attack. Not one square centimeter of Little Entente land will be given up by us or won by force. Those who do not respect the will of the Little Entente—which means the will to preserve the inviolability of the peace treaties—are brewing war."

Provocation to this outburst was supplied from two not unrelated sources. One was the proposals injected by Italy into international debate—not only the suggested four-power pact of last Spring but more recent suggestions looking to reconstruction of the functions and procedures of the League. These proposals Yugoslavia in particular construes as a move for treaty revision. The second source was the recent

propaganda of the former Hungarian Premier, Count Bethlen, in London, particularly in behalf of separating Transylvania from Rumania.

In connection with the Hungarian campaign for revision it has lately been pointed out by opponents that no clear and definite statement of what Hungary actually desires has ever been made. Lack of precision, it is charged, is intentional, with a view to attracting international support that would be denied if what is contemplated were known in its entirety.

The *Central European Observer* (published at Prague) considers, however, that the Hungarian case was "given away" in an article appearing in the Budapest *Magyarsag* on Nov. 19 in which the post-war system of small States is pronounced an intolerable "strait-jacket" for the great possibilities of the Magyars, and the ultimate objective of Hungarian revisionism is defined as "recovery of the full integrity of pre-war Hungary." Supporters of Hungarian revision propaganda abroad, it is added, should take due note of this and should recognize that the movement which they are supporting "will lead unavoidably to a terrible conflagration in Central Europe." Any concession to Hungary, even the most modest rectification of frontiers, would, the argument continues, be taken by Budapest as an evidence of Czechoslovak, Yugoslav and Rumanian weakness and would merely furnish incentive for new efforts aimed at disrupting the Little Entente States and regaining Hungary's pre-war frontiers.

GREECE TELLS MR. INSULL TO GO

Written notice served on Samuel Insull on Dec. 21 that he must leave Greece not later than Jan. 31 marked the beginning of the end of the fight by the former utilities operator to defeat American efforts to bring him to trial on charges of fraudulent bankruptcy proceedings. An earlier edict stipulated Jan. 1, when a police permit for residence issued to the fugitive in 1932 was to expire. A plea for extension of the formal permit was refused, but the authorities agreed to take no further action before the later date. American denunciation of a newly ratified extradition treaty as being worthless in view of two refusals by the Supreme Court at Athens to allow it to be applied to the Insull case manifestly troubled the Tsaldaris Government, which assured American representatives as early as Dec. 11 that it would try to find some means other than extradition by which our demand could be met.

Mr. Insull's passport having been revoked by the United States, he will have no papers on which to travel after leaving Greece except a *laissez-passer* issued by the Athens authorities. Inasmuch as he cannot reach another country with which the United States has no extradition treaty without passing through one or more with which there are such treaties, or at all events traveling on the high seas, it is assumed that he will eventually be brought into American custody and returned to Chicago for trial.

Remodeling the Estonian State

By RALPH THOMPSON

THE Estonian people, by their overwhelming assent in referendum last October to deep-reaching constitutional changes, showed that they have not been satisfied with the success of their present form of government in solving current economic and social riddles. A Constitution radically amended takes effect on Feb. 5, 1934, and within a hundred days from that date the first President of the Republic is to be elected. No longer will the government be directed by a Minister-President, who combines the functions of Prime Minister and State Head and consequently holds office at the pleasure of the State Assembly. The recently authorized Executive will be chosen by popular vote from accredited candidates for a term of five years.

Instead of being a creature of the Assembly, the new head of the State will have the power to limit or extend its sessions, to veto its measures, and to dissolve it in order to submit to a newly chosen parliamentary body the matters in dispute. The decision of the Assembly thus summoned will be without appeal. In times of extreme stress the President will have the power to promulgate decrees which will have the force of law. The reformed Constitution reduces, moreover, the number of members of the Assembly from 100 to 50, and extends their term of office from three years to four years. A Chamber formed on this basis is to be elected also within a hundred days after Feb. 5, 1934. Until then the present Assembly will retain its mandate.

These alterations in the framework of Estonian political life were not lightly accomplished. Concerted attempts to achieve similar ends had been made twice before—in August, 1932, and June, 1933—and had failed, largely through the efforts of Leftist elements, who foresaw in such changes the possibility of a dictatorship. Now that the reforms have been ratified, the cry of fascism is heard in several quarters, perhaps not without reason. The impetus for an individual and powerful "leader" came from a group known as the Fighters for Freedom, or the Liberators, and this organization, built up from among veterans of the Estonian war for independence, has definite nationalistic tendencies and is said to be imbued with other Fascist and National Socialistic ideas.

The Soviet press has reacted to the changes in Estonia by alleging that the movement for reform was subsidized by German funds and led by German Baltic barons, and that it would effect an expansion of German colonization to the eastward at the expense of Russia. More recent events, however, seem to disprove this accusation, for on Dec. 5 the Estonian Assembly voted with but three dissenting voices to dissolve every Nazi organization in the country and to suppress the party organ, *Aufstieg*. Leaders of the Baltic German Nazi party were arrested, and tneir houses were searched for evidence of intrigue.

The result of the October referendum was interpreted by the government headed by Jaan Toenisson, lead-

er of the Populist group of the National Centre party, as a direct vote of non-confidence, and on Oct. 17 he and his Cabinet resigned. They had been in office less than a half year—since May 18. A new government was immediately formed by Konstantin Paets, former State Head and chief of the Right Wing of the United Agrarian party, the most conservative aggregation in the country.

POLITICAL UNREST

Fumes from the active political cauldrons of Europe are still being wafted across the land and sea frontiers of the Northern States, and still arouse nervousness there. On Jan. 1 the Danish Government, troubled by the unrest among the German minority in South Jutland and the growing evidences of Nazi propaganda in the section, made known its intention of prohibiting the formation of storm troops within the kingdom. This announcement followed closely upon an order banning the wearing of uniforms by private organizations such as the Nazis.

In Sweden a local party of National Socialists has come into the open under the leadership of Major Martin Ekstroem, but this group is said to disavow intimate association with German Nazidom. Meanwhile, however, unadulterated propaganda continuously flows across the Baltic by means of newspapers and periodicals printed in Swedish on German presses, and through the medium of a powerful broadcasting station in Luebeck.

Finland is also having its worries over foreign political influences, though hers are of a somewhat different nature from those to the west. On Oct. 5 a lieutenant attached to the Finnish General Staff as moving picture photographer disappeared over the Russian frontier, leaving behind him a strong suspicion of espionage. Later in the month a Canadian woman and an American named Arvid Jacobson were detained in Helsingfors, charged with cooperation with the vanished lieutenant and contact with the Soviet secret political police. On Nov. 10 it was announced that Jacobson had made a full confession; on Dec. 10 it was said that twenty-five other persons implicated had admitted their guilt, and that their revelations disclosed the activity of a huge international spy ring.

Perhaps it was partly because of the Red fear in Finland that the Latvian Diet on Nov. 22 suspended the parliamentary immunity of the seven Communist members of the House, promptly arrested six of them (one escaped) and prepared to try them for conniving at the overthrow of the present Riga government. By this move official Latvian political life is purged of its most radical element, one which favored closer political and economic relations with Latvia's most powerful neighbor, Soviet Russia.

WET VICTORY IN ICELAND

Reports from Reykjavik on Nov. 13 stated that the referendum on prohibition in Iceland had given victory to the anti-prohibition forces by a vote of about 15,000 to 11,000. Several weeks later, on Dec. 9, the Althing in its closing session adopted a resolution urging the government to introduce a measure at the 1934 session legalizing the sale of spirituous liquors on the island. Thus yet another well-meaning attempt to legislate temperance into a people was acknowledged a failure.

Soviet Russia's Year of Success

By EDGAR S. FURNISS
Dean of the Graduate School, Yale University

THE meeting of the All-Union Congress of the Communist party scheduled for the opening weeks of 1934 promised to compel the Soviet leaders for the first time in many months to render an official account of their stewardship to the rank and file of the party. According to the party constitution, the congress should convene annually for the highest Communist officers—the Central Executive Committee—to obtain approval of their program from the membership and for the party as a whole to lay down the broad lines of Soviet government policy. But the congress has not met since June, 1930. The session scheduled for 1933 was postponed by the Central Executive Committee on the ground that the party membership had become "polluted by alien elements" and must be purged before the congress could be considered truly representative of Communist principles.

Undoubtedly there were other reasons for the postponement. The results of the first Five-Year Plan were only partly satisfactory; the second program, scheduled to begin on Jan. 1, 1933, had been prematurely announced with extravagant specifications, but could not be seriously considered as a practical program for 1933. Above all, the country was in the throes of a food crisis of the first magnitude, and there was real danger that the collectivist organization of agriculture, basic to the entire domestic program, would disintegrate before Spring. Nor had the Soviet leaders scored sufficient successes in foreign policy to compensate for the shortcomings of their program at home. Against such a background progress in Soviet affairs during the past year should be evaluated.

But the reasons given by the Executive Committee for the postponement of the congress were both true and important. In some localities the party offices had fallen into the hands of enemies of Stalin who were attempting to thwart the policy of the Kremlin, while the membership in these same regions was largely apathetic if not antagonistic. The chief danger lay in the North Caucasus and the Ukraine. In the Ukraine a formidable separatist movement for outright secession from the Union had sprung up. In South Russia and the Caucasus widespread opposition to collectivist organization was manifesting itself in systematic sabotage which had almost ruined the government's grain program. Less extreme examples of disloyalty or dissension within the party were to be found in other sections of the country.

Throughout the past year the party inquisitors conducted a searching examination into the faith and works of every professed Communist within the country, with the result that about 20 per cent of the membership has been expelled from the party. In South Russia and the Caucasus exemplary punishment was meted out to disloyal party officials, and the entire popula-

tion of some villages was transported to other regions. As for the Ukraine, an Assistant Commissar for Agriculture and several of his colleagues were executed, while the leader of the separatist movement, N. A. Skrypnik, former Commissar of Education, escaped similar punishment only by committing suicide. In December a spokesman for the Kremlin announced that all vestiges of the conspiracy had been stamped out. As a result of a general purging throughout the country, and the more drastic measures taken in critical areas, the party is now more firmly united and more completely docile under the leadership of its central officers than at any time since the last meeting of the congress.

There has been marked improvement, too, in Russian economic conditions. The year began with the country on the verge of famine, with the food ration in many industrial centres reduced almost to the starvation level. The peasantry were refusing both to carry out the government's orders with respect to land cultivation and to surrender their hoards of grain to the government's agents. But the Soviet leaders have carried through a campaign which has produced the largest supply of food crops in Russian history. Official figures published in December place the total of the cereal crops at 3,300,000,000 bushels, an increase of 725,000,000 bushels as compared with 1932.

What is more important, the Soviet Government was able in 1933, for the first time in its history, to complete its grain collections before the end of the year, two and a half months earlier than ever before. Indeed, 96 per cent of the collections had been made by Nov. 1, and it is indicative of the change in the attitude of the peasants that the regions where opposition was greatest last Winter—the Ukraine and North Caucasus—not only surpassed their production quotas but were among the first to complete their deliveries of grain to the Soviet authorities. No official statement has been made regarding the total supply of grain impounded by the government, but estimates by well-informed observers place the amount at 20 to 25 per cent of the entire crop. It is said to be sufficient to meet the needs of the urban population, the construction camps and the army, and to provide a surplus of some 7,000,000 tons for export.

This change in the agrarian situation has had far-reaching effects upon conditions of life throughout the country. With the grain collection program completed, the government immediately instituted free trade in food, so that before the end of 1933 large supplies of grain had begun to appear in the private markets of the cities, resulting in a substantial decrease in the price of bread. Labor turnover in the industrial centres, formerly a major cause of inefficiency in the factories and mines, has declined with the improvement in living conditions; and the peasant population, which had fled from many of the grain-producing areas during the hard times last Winter has begun to drift back to the villages, thus providing the labor necessary for a further increase of agricultural production. The government, commenting on the fact that the Autumn sowing exceeded the specifications of its program, declared that no longer was it concerned about the future of the nation's food supply and the permanence of the collectivist agrarian organization upon which its economic policy rests.

Information regarding the development of Soviet industry is too fragmentary to permit a general compari-

son of the situation at the end of 1933 with that of a year ago. Occasional statements in the official press have recorded the successful accomplishment of large-scale undertakings, such as the gigantic nitrate plant at Bobriki and the hydroelectric installation near Leningrad, both of which were put into operation at the end of the year. Many such isolated examples of progress could be cited; and some indication of the general trend in the heavy industries as a whole was given in a survey published by *Industrial Life* late in December, which showed a 94 per cent expansion of production during the preceding three years.

If one is to judge, however, by the general tone of public comment, the newly created industrial structure is not functioning satisfactorily. During the closing weeks of 1933 the official press published scathing attacks upon the management of many of the major industries, chiefly on the score that their output was so defective as to be in certain cases entirely useless. The railroad system, too, is operating far behind schedule. This is a matter of especial concern to the Soviet authorities because of their promise to the peasants that the supplies of consumers' goods would be promptly increased as a reward for the fulfillment of their grain quotas, and as an inducement to further effort. The government is attempting to meet the situation in a characteristic manner—by harsh discipline brought to bear on those whom it holds accountable.

A decree of Dec. 9, signed by President Kalinin and Premier Molotov, provides that managers, directors and member of administrative and technical personnel shall be held criminally liable for defective output and punished by imprisonment of not less than five years. The prosecuting officers of the Union have been ordered to enforce the decree immediately.

It would be incorrect, however, to infer from this self-criticism that the Soviet authorities have lost confidence in their ambitious industrial program. Convincing evidence to the contrary is provided by the outline of the second Five-Year Plan made public on Dec. 30 as a preliminary to its discussion by the All-Union Communist Congress. It is impossible to consider here the detailed provisions of this gigantic program, but certain of its major features may be summarized as an indication of the confident attitude with which the Communist leaders face the future.

The plan embraces the five years from Jan. 1, 1933, to Jan. 1, 1938. During this period it is proposed to multiply industrial production nearly two and a half times. The basic industries—coal, copper, pig iron, steel—are to double, and in some cases treble, their output. The manufacture of machinery, automobiles, agricultural equipment, freight cars, locomotives is to be expanded threefold or more. Electric power is to increase by 180 per cent. The transportation system is to increase the carriage of freight by more than 100 per cent, and almost 7,000 miles of new railroad construction are to be completed. Especial attention will be given to the production of goods for popular consumption, the output of such goods alone scheduled for the end of the period being 25 per cent larger than the total industrial production of all kinds in 1932. In fact, the new program may be said to be focused chiefly upon an improvement in the material welfare of the common people, for the standard of living is to be raised 100 per cent during the next four years, partly through slight increases in money incomes, but principally

through a decline of almost 50 per cent in living costs. To accomplish this it is proposed to increase the amount of factory products available for household use and to double the food supply by improving the technique and especially the mechanization, of agriculture.

As in the case of the first Five-Year Program, the outside world will probably pay less attention to the cultural than to the material phases of this great experiment in national planning. In this connection the death of A. V. Lunacharsky on Dec. 26 gives the foreign observer occasion to review what the Soviet Union has already done to promote the intellectual progress of its people. A scholar and writer of international distinction, Lunacharsky was for twelve years until 1929 Soviet Commissar of Public Education. During this period he worked incessantly in the cause of mass education to overcome the illiteracy and intellectual degradation of the Russian people. Although he lost the support of the dictators and resigned in 1929, his main ideas were incorporated in the Five-Year Plan.

The past few years have witnessed an almost incredible change in the conditions of the Soviet Union in respect to popular education and general culture: a complete remodeling of the school system in all its branches; the establishment of a policy of universal compulsory education for children, and a program of adult education which has reduced illiteracy from over 70 per cent to the vanishing point; and the rapid spread of newspapers, magazines and other vehicles of popular enlightenment even among national groups which formerly did not possess a written language. The new plan undertakes to carry these cultural programs still further. As part of the effort to increase the number of industrial wage-earners by 30 per cent, provision is made for a great expansion of facilities for vocational and technical training; while the enrolment of students in the school system from the lowest grades to the universities is scheduled to increase from 24,000,000 to 36,000,000.

The program just announced must be considered merely as a tentative forecast of policy since it could be modified by the Communist party congress, and indeed, at any subsequent time at the discretion of the Central Executive Committee. Moreover, the dazzling picture of progress unfolded by the control figures should not be taken too seriously until actual performance will have demonstrated its practicability. The summary of the provisions of the new Five-Year Plan, like the survey of developments within the party and in agriculture, is of significance chiefly as evidence of solid progress in Soviet domestic affairs during 1933. In the previous year the nation's rulers were so much absorbed in a struggle to maintain their political authority and to save their economic program from disaster that they did not venture to lay before the people any detailed plan for the future. Now they had become confident enough to call the party delegates into session and to propose a gigantic program of advancement in all departments of domestic economy.

To complete the picture of the year's developments, foreign affairs must be touched upon. No one who has followed events during the year can be unaware of the continuous achievements of Soviet diplomacy. The Soviet Government, beginning with a series of non-aggression pacts with its European neighbors and with France, followed by the negotiation of a recognition agreement with the United States and ending with Litvinov's friendly

discussions with Mussolini, which have prepared the way for international co-operation between their governments, has attained its objectives of peace and security in all sectors of its foreign relationships except two. Within Europe, Germany remains outside the structure of peace agreements; but here the increased strength of Russia's international position is shown both by the markedly conciliatory attitude which the Nazi Government assumed at the end of 1933, in startling contrast with its bellicose statements last Spring, and by the fact that the Soviet Government has completely ignored these belated gestures of friendship. In the Far East, Soviet relations with Japan remain dangerously embittered. In December Stalin, in one of his rare public utterances, spoke definitely of the threat of war. But in this sector, too, the Soviet Union has displayed confidence in the security of its position by a steadily increasing firmness of tone toward Japan. Russia will undoubtedly avoid war if possible; but the safety of the other frontiers and the improvement in the internal political and economic situation have greatly increased the Soviet war strength in the Far East. The double tracking of the Transsiberian Railroad, an important factor in any military operation in this area, has been completed and formidable units of the Red Army and the air force together with large military supplies have been concentrated at strategic points on the Manchurian frontier.

Turkey's State-Owned Industries

By ROBERT L. BAKER

STUDENTS of republican Turkey have long been trying to find a term that would exactly describe the theory of the Turkish State in its relation to the economic life of the country. It has even been thought that theory was absent, that Mustapha Kemal and his associates have been guided in their economic policy by expediency and that the Turkish Government was forced into industry and commerce by the lack of private capital and private initiative. Though Turkish rule bears some resemblance to fascism, it is not fascism; it is certainly not communism, though there are a number of Turkish parallels to Soviet economic methods. Nor can the economic policy of the past few years be fairly called State socialism, though again there are resemblances. Conjecture on this point is no longer necessary. On the authority of Ismet Pasha, the Prime Minister, Turkey's economic theory can now be called "State capitalism." In a recent interview, Ismet said: "Even the strongest and richest countries are beginning to use forms of State capitalism. We are proud of the fact that at the very beginning of our new national existence, we realized the benefits of this system."

The Premier indicated that as rapidly as the resources of the State permitted, private enterprises would be taken over and that eventually private industry would disappear. The Turkish Government already exercises sixteen monopolies, the most impor-

tant being tobacco, alcohol, salt, sugar and explosives. Railroads and mines are virtual monopolies, along with coastal shipping, and many new industries are directly controlled by the government because it advanced more than 50 per cent of the capital necessary to establish them.

It may be assumed, however, that Turkish State capitalism is intended to include only industry, transportation, mining, banking and the larger functions in commerce. There seems no intention to encroach upon the activities of the millions of peasants who own their own lands and flocks, or of small merchants or artisans.

Ismet Pasha's statement was in harmony with Mustapha Kemal's speech at Ankara on Oct. 29, when the Ghazi declared that the progress achieved during the first decade of the Turkish Republic was only a beginning, and that next to adequate measures for defense the greatest need of the country was for industrial development. Mustapha Kemal's words are invariably followed by action, and on Dec. 7 the President and the Council of Ministers elaborated a five-year industrial plan. The plan will, of course, have to be passed by the Grand National Assembly, but its approval can be taken for granted. Approximately 25,000,000 Turkish pounds (about $19,000,000 at the current rate of exchange) will be appropriated for this purpose in the budgets of the years covered by the project. In addition, a credit of about $12,000,000 for the purchase of textile and other machinery has been made available by the Soviet Government.

With the means thus provided fourteen factories will be built, and of these twelve are to be State-owned. The new enterprises are designed to supply Turkey with manufactures for which she has hitherto been specially dependent on imports. Among these are coke, yarns, glass bottles, tissue paper, cellulose and chemical products, for all of which Turkey already produces the raw materials.

Turkey suffered an incalculable loss on Dec. 4, when the Law Courts Building in Istanbul was destroyed by fire. Virtually all the judicial records of the country up to 1923 were lost. The material damage alone was estimated at $8,000,000. Only the fortunate direction of the wind saved the great mosque of St. Sophia. The priceless records of the republic are, of course, kept at Ankara, which became the capital after the Kemalist triumph.

The reformed Turkish University opened at Istanbul in mid-December. Among its professors were thirty-six distinguished scientists and scholars from Germany, most of them non-Aryan extraction. The medical school, which has been aided by an internal loan of about $1,000,000, will benefit especially from the instruction of these brilliant exiles. Foreign professors, whether at Ankara or at Istanbul, are expected to deliver their lectures and conduct their classes in Turkish at the end of three years, but they are applying themselves to the study of Turkish with such energy that the language difficulty should be overcome long before that time.

Though Turkey has given refuge to many German-Jewish exiles, she has done so because they were specially fitted to aid in the building of the New Turkey. She offers no general welcome to refugees, and proposes to regulate immigration strictly according to her own interests.

THE FRANCO-SYRIAN TREATY

Rumors have been current for nearly a year that France would soon take a definite step toward ending her

mandate over Syria. The long-anticipated move came on Nov. 20, when it was announced that the new High Commissioner, M. de Martel, had negotiated and signed a Franco-Syrian treaty of friendship and alliance with the Syrian Premier. This treaty, which closely resembles that by which Great Britain paved the way for Iraq's independence, was strongly denounced by Syrian patriots and Conservatives alike. The Nationalists declared that it did not go far enough; the Conservative minority held that it went too far in view of Syria's undeveloped condition. There were demonstrations everywhere and the Nationalists even threatened a general strike.

When the treaty came before the Syrian Parliament for ratification it was at once apparent that it would not be approved. Rather than have a defeat go on record, the High Commissioner withdrew the treaty and prorogued Parliament until March, 1934.

The main objection of the Nationalists was that Latakia and the Jebel Druze were not included in the treaty but were to retain their present independence of Syria. M. de Martel refused to discuss this question until the expiration of the transitional four-year period, after which, according to the terms of the treaty, Syria is to be recommended for membership in the League of Nations. The High Commissioner declared that a single government for all Syria might then be considered, but only on condition that Latakia and the Jebel Druze should be left with local and financial autonomy and be allowed to have their own representatives at the negotiations.

The Nationalists also objected to the twenty-five-year alliance with France that was stipulated in the treaty. During this period Syria would be bound to consult France on foreign policy and to submit to French supervision of financial and military affairs.

During the interval before the next meeting of Parliament, M. de Martel and Premier Hakki Bey will have to undertake what should have been done earlier, namely, to overcome in private discussions the objections of the Nationalist leaders to the treaty.

RIOTING IN PALESTINE

The Palestine Government's recently adopted policy of carefully scrutinizing Jewish immigration and of searching for and deporting tourists who have illegally settled in the country has aroused great indignation among the Jewish community. Feeling has been especially high-pitched among the revisionists, who on Dec. 9 attempted a demonstration at Tel-Aviv. The meeting itself was easily dispersed, but later a procession of several hundred revisionists carrying a Zionist banner clashed with the police. Sixteen British and Jewish policemen and three civilians were injured in the mêlée. The disorder lasted for three hours and it was not until truckloads of armed police arrived from Jaffa and their commander threatened to open fire that the crowd was finally dispersed. The Tel-Aviv municipality at once issued a proclamation condemning mobs and approving the action of the police.

The trial of three members of the Arab Executive in connection with the riots in Jerusalem on Oct. 13 began on Nov. 27. The Arab Executive proclaimed a brief strike of protest, and great pressure was brought to bear on the Palestine Government by the Arab press and by petitions and let-

ters. When the verdict was returned, the sentences were found to be quite mild. Sheik Muzzafar was released on surety of $1,000 against a year's good behavior. His companions, Jamal Husseini and Edmond Rock, received jail terms of one month.

Sir William Murison arrived in Palestine early in December to conduct a secret inquiry into the October riots. In this task he is being assisted by Mr. Trusted, the Attorney General.

EVENTS IN IRAQ

A rather serious trial of strength between young King Ghazi of Iraq and Prime Minister Rashid Bey took place on Oct. 29, only a few weeks after Ghazi had succeeded to his father's throne. Premier Rashid had asked the King to call a general election, presumably to secure a mandate to enable the government to carry on its strong policy toward minorities in general and the Assyrian minority in particular. King Ghazi refused, and Rashid's resignation was interpreted as an attempt to force the King's hand. Since the Cabinet was composed of the most experienced statesmen in Iraq, Baghdad observers were surprised when the King coolly accepted the resignation without even asking the Premier to reconsider it.

This show of authority on the part of the 21-year-old King raises the question of his advisers. Any answer must be in the nature of conjecture. Perhaps Ghazi's uncle, former King Hussein of the Hejaz, has his ear. It seems more likely, however, that British influence prevails in the palace at Baghdad, as it did during the reign of King Feisal. At any rate, the British Government was not pleased with the policy of Premier Rashid, who, instead of punishing Sidkey Bey, commander of the Northern District when the Assyrian massacres took place, actually promoted him to the rank of Lieutenant General and the title of Pasha. It is also significant that the new Cabinet, announced on Nov. 9, contained no Ministers belonging to the Nationalist party. Jamil Bey Midfai, the new Prime Minister, was President of the Chamber of Deputies, and has a large following in both houses of Parliament. In view of his popularity an election appears unlikely.

EXECUTIONS IN AFGHANISTAN

Afghan justice quickly overtook the conspirators who assassinated King Nadir Shah at Kabul on Nov. 8. Only five weeks after the deed was committed, Abdul Khaliq, the actual murderer, and Mahmud, one of his accomplices, were convicted, sentenced and executed. Though hanging is the favorite method of execution of Afghanistan, Khaliq met his fate by bayoneting. Two other Afghans involved in the immediate plot were sentenced to life imprisonment. On Dec. 16, the day when Khaliq and Mahmud were put to death, six Afghans were executed for sedition and eight others paid with their lives for crimes not made public, but supposedly connected with the murder of Nadir.

The Kabul newspaper *Islah* on Dec. 21 carried a photograph of a confession alleged to have been made by Abdul Khaliq shortly before his execution. The young regicide professed that he had been prodded on to the murder by a young woman belonging to the Amanullist Ghulam family with whom he was deeply in love. He claimed to have been told that the assassination of Nadir Shah would open the throne to former King Amanullah or to Ghulam Siddiq, and that great honors would be heaped on him.

The Threat to China's Strong Man

By TYLER DENNETT
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THE Fukien rebellion in China has begun to look serious. Most Chinese rebellions mean no more than that one warlord seeks to take something away from another warlord, but the uprising in Fukien, although not without this aspect, may, because of its political effects outside the province, become important.

General Tsai Ting-kai, on behalf of the famous Nineteenth Route Army, declared the independence of the province on Nov. 20, 1933. His action was purely military because the army, now quite different in personnel from the one that won so much honor in the defense of Shanghai two years ago, has been in Fukien a year and has not ingratiated itself with the poor people who have had to put up with the inconvenience of entertaining inconsiderate guests. General Tsai merely took matters into his own hands and seized the country in order to collect funds, not forthcoming from Nanking, with which to support his 60,000 troops. For the moment it seemed little more than that another warlord had set out to create for himself an independent kingdom.

The picture was soon altered by the appearance of Eugene Chen who was installed as Foreign Minister. At once he issued a manifesto to the foreign powers in which he declared that the purpose of the new government was nothing less than to overthrow the Nanking régime and to establish a new leadership for a genuinely independent nation which would be as free from Japan, on the one hand, as from the United States and the League of Nations, on the other. Chen thus sought to capitalize the latent discontent of many Chinese with the weak-kneed or pro-Japanese policy of Chiang Kai-shek.

Chen elaborated this manifesto in a statement to *The New York Times* correspondent on Dec. 23, in which he said: "The People's government is non-Kuomintang and aims not at the dismemberment but the salvation of China, which will be achieved first with the expulsion of Chiang Kai-shek, whose continuance in power is an insuperable barrier to national unity. We plan agrarian changes, giving lands to the peasant masses, and to provide an internal market for the absorption of the products of an industrialized China. We intend to organize governments for a China envisaged not as the property of an Asiatic ruler but as the possession of the Chinese people." Thus the movement took on a pinkish tinge which was still further confirmed when Tsai permitted the Communists from Kiangsi to occupy Northwestern Fukien up to within 100 miles of the coast. The Fukien rebels were reported to be counting upon the support of the 75,000 fairly well equipped Kiangsi soldiers.

Another explanation offered for the rebellion is that the Southwest Council of the Kuomintang, which is opposed to Nanking and which was recently displaced by General Chan

Chai-tang at Canton, has attempted to regain power by shifting to Fukien whence, in due time if successful, it would return to Canton to oust General Chan. The latter, although accepting a retainer reported at $350,000 a month from Nanking to suppress bandits, has shown little zeal in placing his forces at the disposal of General Chiang Kai-shek to assist the latter to hold his job at Nanking. General Chan is understood to have asked for an increase of $200,000 a month as the price of his loyalty and there have been rumors that he wished permission to raise a bond issue of $20,000,000, with the customs as security. In somewhat leisurely fashion the Southern General massed 10,000 troops on the Southern border of Fukien, but only for purposes of defense, and began digging trenches around Canton as though he expected the Fukienese to take the offensive.

Having thundered defiance from Nanking and having promised to take the field in person against the rebels, General Chiang called a conference at Canton to which the Kiangsi rebels also were invited. The purpose was to make sure that the Cantonese, at least, would send delegates to the fourth plenary session of the Nationalist Central Executive Committee at Nanking in December. The conference appears to have been unsuccessful in restoring peace between the factions. In Shanghai on Dec. 10, Premier Wang Ching-wei announced that it would be quite impossible for the republic to dispense with the services of Chiang Kai-shek at present because of the anti-Communist campaign, but that Wang himself, whose resignation also was demanded in Fukien, would be willing to make way for a better man. Reports about the same time indicated that in London the resignation of Chiang Kai-shek would also be regarded as deplorable. It seems improbable that the doughty generalissimo could remain very long if the powers did not desire it.

The Fukien rebellion, however, did stop for the time being the negotiations in the North with the Japanese, for it would not help General Chiang's prestige to be in the position of making still further concessions to Japan. Furthermore, Nanking was badly pressed for funds to finance the suppression of the new rebels.

The military operations by the end of the year, notwithstanding the threats from Nanking, had not been extensive. General Chiang established a base at Hangchow, distributed 50,000 troops along the northern boundary of Fukien and "waited for the war to begin." With the arrival of 8,000 airplane bombs from America, he ordered several airplane raids, the most important of which was over Foochow about Christmas time. Casualties were not extensive, but the damage to foreign property was such as to move the powers to protest. "While Chiang Kai-shek has not enough nerve to use the bombing planes against the Japanese," commented Eugene Chen, "he did not hesitate to use them in the massacre of his own countrymen." Chen did not fail to point out that the planes had been purchased by popular subscription for use against Japanese aggression.

At the outset the American Government sent a gunboat, the British a destroyer and the Japanese a cruiser to protect foreign interests. Foreigners have been called in from the interior and concentrated at Amoy, as Foochow, a dozen miles up a river from the anchorage for seagoing vessels, could not be protected by naval forces. The Nanking Government sent a landing force by sea

to attack Foochow from the coast but nothing effective was accomplished. The Japanese, adopting a policy of watchful waiting, ordered the entire Third Fleet to Formosa and by the end of December Japan had a formidable naval force available for use.

The news that Marshal Chang Hsaio-liang, refreshed by his vacation in Europe, and cured, perhaps, of his opium habit, was on his way back to China added a disquieting note to the political situation. The Japanese could not view his return with satisfaction. Lieut. Col. Shibayama, military attaché in Peiping, issued a statement on Dec. 18, in which he deplored the return of the young marshal and repeated that Japan desired to see China unified under Chiang Kai-shek.

In short, the Fukien affair, which apparently bewildered observers, indicated that the Nanking Government, at the close of the year 1933, was unable to point with pride to any substantial advance toward the unification of China, without which the Far Eastern policies of all the powers are for some time to come likely to remain merely opportunistic.

DEATH OF THE DALAI LAMA

The death of the Dalai Lama of Tibet on Dec. 17—by poison so it was reported in London—has given rise to much speculation as to the political effect on both British and Chinese fortunes up there on the roof of the world. The Dalai Lama, since he returned to Lhasa in 1912 from a three-year refuge in India, had been definitely pro-British and equally anti-Japanese. Tibet, nominally still a part of China, is a buffer between Russia and India, a fact which gives importance to the British shadow in Lhasa. Some Chinese have hopes that the Panchen Lama, exiled from Tibet in 1924 and since then the recipient of a magnificent annual subsidy from the Chinese with whom he sought refuge, may return to Tibet to recover his old spiritual authority and at the same time lead the Tibetans back into the Chinese fold. Just what attraction such a fold might have at the present for distant Tibet is not very apparent.

MILITARY RULE IN JAPAN

The Japanese Diet reassembled on Dec. 23 to prepare for its formal opening by the Emperor three days later and then adjourned until Jan. 20. Although 44 per cent of the new budget is allotted to military objects, and the poor farmers will get little relief, it was not expected that there would develop any serious parliamentary opposition to the government program. The Diet was already cowed by the military leaders who issued a further warning against "attempts to poison the minds of the people against the military." The Seiyukai had 293 seats, a vast majority, in the lower house, as against the 118 held by the Minseito. The fall of the present government would involve an expensive election with the prospect of another coalition government, or the establishment of a military dictatorship. There is a vigorous movement for the abolition of the entire party system. For example, Mr. Matsuoka, who led the energetic defense of Japan at Geneva and in America last year, has recently resigned his party membership and declared for the abandonment of the party system.

The Japanese naval leaders are already beginning to arrange the cards in their hands for the approaching naval conference in 1935. The approval of the 5-5-3 ratio by Secretary Swanson in his annual report to President Roosevelt met with an immedi-

CURRENT HISTORY

MARCH 1934

Britain Muddles Through

By J. A. SPENDER

[Mr. Spender is a distinguished English journalist who was for twenty-six years editor of the *Westminster Gazette.* He is the author of more than a dozen books, including a biography (in collaboration with Cyril Asquith) of Lord Oxford and Asquith.]

NOTHING in recent years had been more difficult to judge rightly than the economic condition of Great Britain. Until a few months ago it was a commonly accepted belief that she was in a state of continuous decline, and she seemed herself rather to acquiesce in this judgment than to resent it. The general impression was heightened by her candid habit of broadcasting her figures of unemployment and by the frank reports in which royal commissions and expert committees exposed the skeletons in her cupboard. Nevertheless, this general impression was, if not wholly wrong, at least profoundly misleading.

It is of course true that certain of Great Britain's basic industries—coal, cotton, iron and steel—depending for their prosperity upon exports, have been greatly depressed since the war, and that unemployment, being concentrated in the areas in which these industries are situated, has taken on a peculiarly painful form. But on the other side, there have been evidences in the life of the people of a diffused prosperity such as no Englishman of my age can remember in his lifetime. All through these years of depression the great mass of the working people have been drawing higher wages, have been better fed, better clothed, and able to spend more on sport and pleasure than ever before; even the unemployed have drawn allowances exceeding in many cases the wages of unskilled labor before the war.

The paradox was so glaring that it was supposed that the British people were living on their capital and therefore heading for bankruptcy. But, in fact, savings were on a higher level than before the war; banks were cluttered with money demanding investment; large sums were still being lent abroad. The people were carrying on their backs a debt of more

than £8,000,000,000, supporting from 2,000,000 to 2,500,000 unemployed, financing their expensive social services—old-age pensions, widows' pensions, sickness and accident insurance —and doing all this without any serious privation, and even with a distinct rise in the standard of life for immense numbers.

I say without serious privation for the country as a whole, but qualifications must be put in for various classes. Among the workers a large family on the dole may easily be in deep poverty unless the wife has great skill in management. A few weeks ago an investigator into unemployment stirred public feeling by saying that 6,000,000 people—men, women and children—were short of food. Thirty years ago when unemployment was at the normal pre-war level (1903) Campbell-Bannerman asserted on the authority of Charles Booth that 12,000,000 were "underfed and on the verge of starvation." The figure, whatever it may be, is not a specialty of these times, but we recognize it to be deplorable.

If we turn to the well-to-do classes, the very rich, who pay upward of 11 out of every 20 shillings in income tax and super-tax and a third to a half of their possessions in death duties, have undoubtedly had to make large retrenchments. Great country houses have been sold and converted into hotels and schools; many big London houses, including some of the noblest of eighteenth-century mansions, have been demolished, and shops, offices and flats erected on their sites. The way of life of the rich and aristocratic has greatly changed. Instead of spending the chief part of their income on their country estates, a large number of them now live the greater part of the year in London or on the Riviera and apply the cash set free to the sports and pleasures favor with their young people. If big establishment is given up, enoı remains, in spite of income tax death duties, to keep this class in state of expensive activity recor by the picture papers.

The really hard case is that elderly professional and business ple who had sav what they s posed to be sufficient to keep tl in old age, and now between taxat and failing investments find th selves in straitened circumstar when it is too late to make a fr start. This class, and with them numerous spinsters and widows dr ing small incomes from trustee inv ments, has been severely hit by war-loan conversion from 5 to 3½ cent. But even these are relati well off compared with the ren classes in other European countr

The present financial situation one which any Chancellor of the chequer of the pre-war period wo have declared to be totally and utte impossible, and which most Europ countries have found to be so. In 1 the country was thrown into con sions and a great constitutional cr precipitated because Mr. Lloyd Geo proposed to raise £14,000,000 in r taxes. Last year a Conservative Ch cellor of the Exchequer gave av just that sum in a remission of beer tax, which he treated as an considerable item in a budget of £7(000,000. That taxation on this sc would bankrupt industry and sta a multitude would have been the un imous opinion of orthodox financi twenty years ago. That it could hand in hand with a rising stand of life for the great majority comparatively little discomfort the minority, they would have held be demonstrably impossible.

What is the explanation? First, of course, a considerable part of this taxation represents not a sacrifice but a redistribution of wealth. If Peter is robbed to pay Paul, both Peter and Paul are still Englishmen, and the money remains in the country. A large part of the £300,000,000 needed for the service of the national debt goes back into the pockets from which it is taken; a large part of the money raised for unemployment insurance, old-age pensions, sickness and accident insurance goes from the pockets of the richer English into the pockets of the poorer English, but represents spending power in the country. This redistribution of wealth is on the whole good. It has done something to redress the inequalities of rich and poor; it has tided the poor over a difficult period without grievous hardship. Great Britain has, in consequence, been able to avoid the deep distress that followed the Napoleonic wars and, so far, been saved from social strife.

The sacrifices required of the rich have on the whole been to their advantage. Apart from any question of social order, they have an enormous interest in maintaining the credit of the country, and for them as for all wealthy people in Europe since the war it has been a choice between sacrificing a considerable part of their income in taxation or seeing their capital values dissolve in a débâcle of credit and currency. It may be claimed for the wealthy and well-to-do in Great Britain that they have had the good sense to choose the lesser evil without overmuch grumbling.

But when all this is taken into account, it still remains to be explained how in these supposedly depressed times the money has been earned to render possible both the largely increased expenditure by the State and the generally higher standard of life among the people. In Great Britain, as in America, there has undoubtedly been a large increase in the output of industry since the war. The World War was unlike all other wars in that, owing to the enormous demand for supplies and munitions during the four and a half years of the struggle, it left industry equipped with a productive capacity which it would scarcely have developed in twenty years in normal conditions. This has had the double effect of enabling Great Britain to produce new wealth with unprecedented rapidity and of creating the new kind of "technological unemployment" which has characterized all industrial countries since the war. The unemployment has been most in the public mind, and has masked the industrial activity which has enabled Great Britain to support the unemployed and, in spite of falling profits and shrinking foreign trade, insured a fair measure of prosperity for the country as a whole in the years of depression, so-called.

While visiting a large number of industrial centres in America during the Autumn of 1927 and the Winter of 1927-1928 I came to the conclusion that, if comparable statistics could be obtained, it would be found that as regards unemployment the condition of the United States and Great Britain was very much the same. In both alike labor-saving machinery and mass-production were throwing large numbers of workers out of their jobs, and it seemed that some organized method of dealing with unemployment was nearly as necessary in the United States as in Great Britain.

But there was a confidence in America which there never was in Great Britain that unlimited demand would attend unlimited supply, and unemployment was regarded as a tempo-

rary manifestation which would pass as new industries grew up to meet new demands. Doubts as to demand haunted all British industries and the open expression given to them led to the belief that Great Britain was in the trough while the United States was on the crest of the wave. But Sheffield in England, like Bethlehem in America, was producing 50 per cent more steel with 50 per cent fewer workmen than in its best year before the war, and in England even more than in America a large number of small new businesses were making substantial profits at a time when the old-established basic industries were languishing.

In the year 1926, supposed to be one of the worst years, I happened to be traveling to India, and found myself in company with a German business man, who had lived in England for many years before the war and had just been on a business trip in all parts of the country. He declared that never in his experience had he seen such industrial activity and prosperity in the midlands and southern part of England as he had just witnessed, and he said he entirely declined to believe in the common talk about "British depression." He was both right and wrong. There was very real depression in the north of England, but it was largely compensated for by a new activity in the midlands and the south of England, accompanied by a tendency to migrate from north to south.

Great Britain has had two major crises in the last fourteen years, one the great labor conflicts—general strike and coal strike—of 1926, resulting from the premature return to the gold standard in the previous year and the effort of the coal-owners to retrieve their export position by reducing wages; the other the storm which, following the American slump and coming to its climax in the budget crisis of 1931, led to the formation of the National government, the departure from gold and eventually the abandonment of free trade.

Both these crises raised fundamental issues which tested the British political character to the uttermost. In both alike the reaction was to order and sobriety as soon as the situation was understood. In 1926 the general strike was called off the moment the responsible leaders of labor realized that, if it continued, it was bound to develop into a revolutionary struggle with the government. In 1931 the vast majority of the electors were ready for any sacrifice to restore the situation when they grasped the nature of the catastrophe that threatened. Socialists might argue that an inflationary policy which left the budget unbalanced and borrowed freely for the diffusion of spending power among the unemployed was in the line of progress, but the danger to a trading community of losing its credit was an immediate fact which was easily apprehended by the "nation of shopkeepers."

It would be idle to deny that both these occasions were heavy setbacks in the field of international trade, but they had remarkably little effect on the internal life of the country. The departure from gold, though regarded as a disaster at the time, gave the British export trade a new opportunity and restored Great Britain her lead among the exporting nations. The effect of the new tariff policy is more dubious, but about that I speak as an impenitent Free Trader. To expect Great Britain to remain the solitary open market—to be, as Protectionists put it, the dumping ground of all the tariff nations—was perhaps to ask of human nature more than it was

capable of giving. In that sense the new policy was a stroke of fate and it may for a time, like all short-term remedies, give a fillip to British trade.

But the major and permanent interest of Great Britain is to get tariffs down, and against the temporary advantages that she may reap by adopting the universal policy of exclusion must be set the loss of her example and leadership at a moment when there is universal acknowledgment that tariffs collectively are an immeasurable evil. She is moreover little used to the technique of tariffs and the extremely complicated arrangements by which tariffs against the foreigner have to be adjusted to imperial preference. Her supplies of essential foodstuffs are regulated by quotas which are empirical and vexatious, and, apart from their protective incidents, a serious hindrance to the free flow of goods upon which the British export trade and, above all, British shipping, depend.

The British flatter themselves now that they are on the upgrade. Revenue is coming in unexpectedly well; most trades report improvement; there has now for nearly a year been a continuous decline in unemployment; the Clyde has booked more orders for shipbuilding in three months than in the whole of the previous year; exports seem gradually to be expanding. The British are cautious in their estimates, but a gradual upward movement for nearly a year justifies hope.

The National government, as is the way of governments, claims the credit for these improvements, and undoubtedly it served Great Britain well in the crisis of 1931. But it lost a good deal of its "National" character when its Liberal and Free Trade members seceded after it had definitely adopted protection, and in spite of the fact that Ramsay MacDonald is still Prime Minister, the Conservative element in it is so preponderant that it is in danger of appearing in the public eye as an ordinary Tory administration. It has suffered serious setbacks at by-elections in industrial constituencies in which unemployment is still the main issue, but it has an enormous margin of strength which, if trade improves and it avoids serious blunders, should carry it through one more election. Its principal danger is that in the effort to remain "National" it should be in fact nothing and incur the general indifference and contempt which has usually befallen coalitions in England.

Certainly nothing could be more dangerous than that it should suppose itself to have a monopoly of power, or that it should give itself the air of being superior to ordinary governments. The British people are in the mood for all sorts of experiments, and the elector watches patiently and good-humoredly while all sorts of governments, Coalition, Tory, Labor, National, try their hands. He gives them all a certain amount of rope, but wakes up and turns them out when he thinks that they have had enough time or made some unpardonable blunder.

Great Britain had two periods of Labor and Socialist government, a short period in 1924 and a longer one from 1929 to the crisis of 1931. Both saw minority governments depending on the support of Liberals and Radicals, whose complaint on both occasions was not that Socialist Ministers were too advanced, but that they did too little to justify their existence. Socialist governments, so far, have fallen between two stools. They find, when they get into office, that they cannot carry out the large schemes which have figured in their programs—abolition of private profit, all-round nationalization of industry and banks—without bringing the

credit structure about their heads, and they have not the skill and patience or the parliamentary experience that enabled the old Liberal and Radical party to carry progressive legislation against Conservative obstruction.

The Left Wing Socialists have announced that next time they will make quite sure by seizing the banks, abolishing the House of Lords, suspending Parliament and governing by orders-in-council the moment they get into power, but this announcement has divided their own party, and is more likely to keep them permanently out of office than to induce the electors to give them the opportunity of trying these experiments. On the other side there are the incipient Fascists, who prance about in black shirts and profess to be spoiling for a fight with the would-be proletarian dictators, but it is certain that John Bull will not let his politics be reduced to a scrimmage between these factions.

What, it may be asked, meanwhile, of tne British Liberal party, "the illustrious Liberal party" which for nine years before the war was continuously in power? As I write I see it reported that a leader of the Republican party in the United States says that "the whole world is leaning more and more toward liberalism," and that he advises his party to conform to the general drift. In another column of the same paper I read that Hitler is adjuring the German people to have done with "the superstitions of an outworn liberalism," and the same exhortation comes periodically from Rome and Moscow. It is encouraging, from any point of vision, to find that the general drift appears to be toward liberalism, but the eclipse of liberalism as an organized political force has everywhere to be reckoned with in Europe, and is perhaps the most important fact in the politics of Great Britain.

The British Liberal party suffered a blow from which it has never recovered at the "victory election" of December, 1918, when Lloyd George's Coalition Government called for a vote of confidence and ruled out all candidates who were not prepared to give it unconditional support. The independent Liberals returned from that election a mere handful, and, what was more important, they had to concede the title of regular "Opposition" to the Labor party, which numbered a few more survivors. The practical British elector regards the regular Opposition as the alternative government and considers his vote wasted if given to a party which has apparently no chance of coming back strong enough to form a government. That situation, once established, tends to perpetuate itself, and Labor has had the further advantage of being able to appeal to the class loyalty of the workers and to outbid almost any program that a Liberal party can offer.

The Liberal party has nevertheless had great influence even with its reduced numbers. It kept protection at bay for fourteen years after the war, and might have done so much longer if the tariff issue had been submitted to the country instead of being part of the vague omnibus program which Mr. MacDonald called his "doctor's mandate" in 1931. It has so far been in a position to decide whether Labor should take office and upon what terms it should remain in office, and its voting strength in the country is still of immense importance to both the other parties and will probably go far to decide their fate at the next election. If Great Britain had proportional representation the Liberals could probably save the country from

having always to make the choice between perpetuating a Conservative régime and giving power to Socialists.

That the present grouping of parties will be permanent, no one can think. The National government, by its tariff policy and its lack of positive leadership in home and foreign affairs, has lost a good deal of the support which brought it into power for the emergency of 1931. Coalition or National governments inevitably proceed by compromises, and compromises do not kindle enthusiasm, however meritorious they may be.

There is unrest in all the political camps. The Conservative party has an active diehard section, which makes no secret of its desire to be quit of the "National" coalition, and reassert itself on purely Conservative lines. The Labor party is divided between left wing and right wing; the Liberals between a majority which has broken loose from and a minority which clings to the National government. Memories of the swift and skillful manoeuvres by which the Tory party discarded the Lloyd George coalition after four years of it are a warning to be prepared for sudden developments as the general election draws near. New combinations in which the old Liberal party will reappear as a Progressive Centre party holding the fort against the extremes of either toryism or socialism are among the possibilities, perhaps not of the immediate future, but certainly of the next five or six years.

In the meantime the political boundaries are highly confused. Conservatives have inbibed a good deal of the old Liberalism and not a little of what used to be called Fabian socialism. Liberals boast their emancipation from nineteenth-century individualism. All the parties have their "planners" and their "brain trusts" evolving constructive programs in a free atmosphere in which the dogmas and principles of the old politics are of little account. The National government has taken agriculture in hand, and speaks—at present rather vaguely—of large schemes for the reorganization of basic industry. The Roosevelt recovery plan is watched with a breathless if rather fearful interest, and its results, whatever they may be, will greatly affect Great Britain's internal politics.

The British habit is still to judge by results, and the people demand of their planners that they shall plan successfully. They are disturbed when their Minister of Agriculture finds himself with a plethora of pigs which cannot be sold without spoiling the market, or a sea of liquid milk for which there is no demand and no visible use. He adjures the people to eat more bacon and drink more milk, and they will do their best, but they are a little less certain about letting his colleagues loose on coal, or iron, or steel.

Never in living memory has there been such awareness of political problems in young and old, or have so many busy brains been at work on what are called constructive policies. It is all to the good; the stir of life and thought and the determination of the young people to think for themselves gives one confidence in the future. If Great Britain is an old country, her youth is very much alive.

The British people as a whole have, however, been true to type whenever they have been tested in the mass, and so they will remain. They have certain rooted ideas about sound money and good business; they are skeptical of experts and theorists and all who promise the millennium by return mail, but they have listened very earnestly to those who tell them that their star is waning and that their

methods are out of date, and, while seeming to acquiesce, they have done a great deal of quiet work behind the scenes, the results of which are beginning to be seen. They are slow in the uptake, but pretty quick when they are convinced that a thing works, and though they seem to "muddle through," they generally, or very often, get through. Self-depreciation is their most characteristic form of humor, and their competitors will probably be wise to take them at a little more than their own valuation.

But no European nation, and least of all Great Britain, can live for itself alone. For Great Britain especially, with her dependence on foreign trade, any considerable stride forward depends on world recovery and world peace. Great Britain has her isolationists, but their idea of renouncing all but imperial trade and finding security in armaments seems to most of their compatriots neither pacific nor practicable. The British Empire with its innumerable contacts in all parts of the world would be very unlikely to avoid challenge, if it presented this face to its neighbors. Security for Great Britain lies still in cooperating with her neighbors to keep the peace. In the conditions of modern war, it becomes more and more unlikely that she should escape being involved in any struggle among her neighbors except at the price of submissions which she should be unwilling to make.

The European scene changes so rapidly that it would be unwise to speak in detail of any particular phase. But in general it may be said that the Central European problem is still that which was left unsolved when the United States Congress rejected the proposed tripartite agreement in 1919—to persuade the French that they are safe against a German revanche, or, alternately, that they can depend on the support of their neighbors in case of a German aggression. It was thought that the solution had been brought nearer when the Locarno treaties had been signed and sealed and Germany joined the League of Nations. But Hitlerism and Germany's departure from the League have revived the problem in an acute form, and a new start has had to be made to find a guarantee of the peace that will enable disarmament to go forward.

The situation is rather less dangerous than might be inferred from excited speeches and newspaper articles. The doctrine of the Kellogg Pact that war is not a legitimate instrument of policy has got a real lodgment in the European mind, and the atmosphere in which foreign affairs are debated is far different and more civilized than that which is revealed in the disclosures of pre-war diplomacy. The feeling that war is an incalculable hazard in which no victory can be presumed also has its weight. But it is more and more evident that nothing short of a collective guarantee in which all the guarantors are pledged to common action against an aggressor will make a tolerable peace. If this fails, the nations go back not necessarily to war, but to competing armaments and balanced alliances which will waste their resources and keep them in a state of fear. Adhesion to the League of Nations is not a mere sentiment, but the practical and sole alternative to this relapse.

Is It a New Deal?

By ABRAHAM EPSTEIN

[An authority on American social conditions, Mr. Epstein is also the author of numerous works on social problems, the most recent being *Insecurity: A Challenge to America.*]

ECONOMIC security is today the foremost American problem, a problem accentuated, but not created, by the depression. Ever since the United States joined the ranks of industrial nations and the supply of fertile free land was exhausted, American wage and salaried workers have been confronted with the all-menacing problem of economic insecurity. Wage and salaried workers depend upon their toil for a livelihood, and every factor which interrupts the opportunity for daily toil immediately brings them face to face with dependency and poverty. No fundamental solution of this problem has so far been offered by the Roosevelt Administration's program.

Even in "prosperous" times the forces militating against a steady income are many and compelling. Every year over 3,000,000 workers are deprived of their regular wages for short or long periods through industrial accidents. Each day finds from 2,000,000 to 3,000,000 people incapable of earning their living because of sickness. Several million old people are prevented from earning an independent livelihood, either because of physical or mental incapacity, or merely because no one would give them a job. In the best of times from 3,000,000 to 4,000,000 persons are without work because modern industry requires a standing army of unemployed. At all times the great majority of workers are confronted with the problem of insecurity because, in case of death, they are unable to provide for their widows and dependents, or because the wages they earn are not sufficient for the maintenance of their large families.

The depression not only has extended these permanent and continuing forms of insecurity to greater numbers of wage-earners but has brought insecurity to those groups and classes which formerly considered themselves more or less safe against any economic disaster.

The causes of this insecurity are continuous and deeply rooted in the very structure of our competitive society. Alternate periods of seeming prosperity and deplorable depression, with all the distress and insecurity which these entail, are of the very flesh and blood of our modern industrial organism. Hazily and vaguely, America is coming to recognize an association between the forces of insecurity and the lack of purchasing power on the part of the masses. The relationship of purchasing power to our productive machinery, however, is less clearly recognized or understood. Few have yet been able to see that a highly industralized system based on *laissez-faire* and uncontrolled profits must of necessity produce more goods than the mass of workers can buy back with the wages they earn. On the other hand, the owners, being human, cannot themselves consume any important share of the goods they produce. What they cannot themselves consume, they must convert into cash

or credit in order to pay dividends.

For many years industrial countries have been able to dispose of these accumulated goods in foreign markets. But competition and the industrialization of the less developed nations have caused these markets to shrink. The goods that cannot be sold must therefore be left to accumulate. So long as the accumulated goods do not leave the warehouse shelves at a reasonable profit to the investors of capital, factories must shut down and workers be thrown out of employment. The national purchasing power is thereby further reduced. Thus the worker's normal under-consumption is further aggravated; profits decline, and the depression increases in momentum. Before long we are face to face with what has become our trite and tragic paradox—a social order in which granaries burst with food, warehouses are chock-full of shoes, clothing and goods of every kind, while men, women and children go hungry and ragged and depend on charity for their very existence.

No remedy can bridge this gap between production and consumption unless it is based upon a fundamental readjustment of the distributive process so as to enable the mass of the people to buy more of the goods produced, and thus to prevent large accumulations of goods. As technological improvements make possible constantly larger stocks of goods, the need for increased consumption becomes not only more imperative but requires a constantly more radical adjustment.

In other words, an industrial nation which cannot export much of its surplus goods must see to it that sufficient purchasing power is available to the mass of its people so as to raise consumption practically to a par with production. Such a method is obviously superior to the plan frequently suggested in this country—and actually followed now—of curtailing production to the level of existing consumption. The first plan makes possible the attainment of the highest standard of life. The second proposes to reduce living standards to a minimum level, with the threat of their constantly going lower. There are two radical ways of achieving a higher standard: (1) Through the raising of wages and price control under a planned economy with profits eliminated; (2) through taxation of excess profits and accumulated idle wealth in order to redistribute the existing purchasing power between those who cannot consume all they could buy and those who cannot buy all that they could consume. The Socialist prefers a planned economy, which controls wages and profits; the intelligent capitalist seeks to stabilize the present system by making the adjustment through taxation.

How has the Roosevelt Administration answered this question? It has been fashionable to charge it with revolutionary intent. Judging, however, by the fundamental steps outlined above as necessary to bridge the gap between production and consumption, there is nothing essentially radical in any of the administration's proposals. Of the Socialist program the administration has so far taken over only a portion—that relating to wages, which, without its corollary of price control, becomes meaningless as an instrumentality of economic adjustment. So far the administration has refused even to touch the radical capitalist program. Instead of using taxation as the chief means of distributing purchasing power, the program is based upon further governmental borrowing—in the long run from those who could

just as easily pay taxes. Instead of narrowing the gap between those who cannot consume their incomes and those who cannot consume because they have no incomes, Washington has widened it.

No sincere student of the administration program can fail to respect and admire it. President Roosevelt and his advisers are obviously motivated by high ideals. Many planks in their program are characterized by unprecedented courage and sincerity. Miss Perkins, Mr. Ickes, Mr. Wallace and a good many other advisers inspire confidence and hope. The administration does not fear experiments and has undertaken each measure with a vigor, unselfishness and zeal never before known in the United States. But an examination of the program as a whole reveals it as distinguished not by radical and revolutionary features but, on the contrary, by a strict clinging to traditional and even worn-out doctrines.

The foremost characteristic of the President's program is its distinct Americanism. Its principles are derived from American liberal dogmas; its mechanisms are peculiarly native. The program is based upon a belief in the fundamental soundness of our industrial civilization, thrown out of gear by a few bad men. No serious operation is contemplated. Short-range planning is deemed sufficient because of the proclivity to see the silver lining to every cloud. At the same time we propose to make each measure effective by exhausting our amazing capacity for organization, pep, ballyhoo, committees and coordinating bodies, and by maintaining faith in confidence as a determinant of all economic forces.

Even in the fifth year of the present economic disaster we continue to look at this depression, as we have in turn looked at each previous depression, as an emergency. The very emphasis on "recovery," with its pleasant memories of the full fleshpots of yore, illustrates how nebulous is our understanding of the existing problem. The administration seems content to experiment chiefly with homeopathic remedies. The present Congress, we are told, will not even concern itself with anything but "emergency" measures. The longest curative program prescribed by the administration is only for a term of two years. Most of our other remedies are in the nature of three shots a day. The NRA is to last for two years; the blanket code was established for six months; the CWA for four months, the PWA for a Congressional term, while our stabilization and inflation programs last only as long as it takes for one economist to replace another.

The traditional American liberalism and optimism stand out glaringly in the administration's industrial program. Even the NRA, generally considered the most revolutionary proposal, essentially involves no radical departure from old liberal doctrines. General Johnson has repeatedly emphasized that it is intended to reform the bad employers and reward the good ones. It embodies nothing revolutionary, since in essence it is merely a trade between more open governmental regulation of industry and the outworn and thorny Sherman Anti-Trust Law. The established minimum wages involved nothing radical, since they have been common for many years. The shorter work-day has been a public issue for half a century, and the Senate had passed the Black Thirty-Hour-Week Bill before the NRA was enacted. The right to collective bargaining has been an established principle in most industrial nations. Public works have been tried every-

where for generations, while make-believe work schemes have been long recognized as practically universal failures.

It is precisely because the entire program fails to recognize the basic roots underlying the depression, and makes no radical attempt to bridge the gap between production and consumption, that one fails to see how it can effectively cope with the existing evils. An analysis of these instrumentalities reveals their inherent shortcomings.

We have already noted that there is little fundamentally radical in the NRA. But naïve faith and confidence caused us to expect so much of it that General Johnson—to his later regret—promised to put 6,000,000 people to work by Labor Day. These exaggerated hopes were due entirely to our traditional habit of wishful thinking. Had the NRA mechanism been studied carefully and frankly, the inauguration of the program might have elicited less enthusiasm at the beginning, but the administration and the people would have been spared many heartaches and disappointments.

A careful examination would have revealed that the NRA program alone could not possibly reduce unemployment to any considerable extent. The reduction of weekly working hours to forty and thirty-five for industrial workers and to forty for clerical workers—the cornerstone of the program—could not of itself force the employment of any great number of new workers. Such a reduction might have had a considerable effect in 1928 or 1929, when the average hours of work per week amounted to over forty-eight, but not in 1933, when the weekly working hours in manufacturing industries during the first five months of the year averaged 34.7.

The stupendous development of technological improvements since the beginning of the depression further limits the possibilities of a great absorption of unemployed workers by merely limiting the hours of labor to thirty-five and forty per week. A considerable rise in production has become possible solely as a result of improved machinery. Without a definite assurance of a greatly increased demand for goods there was no real promise, when the NRA was inaugurated, that the mere reduction in hours of labor would necessitate considerably increased industrial forces.

The expectation that a minimum wage ranging from $11 to $15 per week would automatically increase the total national purchasing power of the workers was also without real foundation. No doubt certain classes of low-paid workers stood definitely to benefit by these higher rates. But it was easily foreseen that the net result might involve an actual decrease in the total purchasing power distributed by any particular industry or even by industry as a whole. Under the new dispensation many less efficient workers were completely cast out of industry. On the other hand, many of those who were formerly considered cheap and inefficient were discovered to be able to do almost as good work as that formerly done by employes who received more than the minimum wage specified in the codes.

Since the codes did not abolish the employer's right to hire and fire, he was able either to dismiss entirely his more expensive help or to rehire them later at wages more nearly approaching the minimum. The endless possibilities in such reductions were quite unexplored. Even now there is no way of estimating whether or not the meager accruals in purchasing power of the lowest paid wage-earners exceed the reductions in the wages of

higher paid employes. There is no conclusive evidence whatsoever that the NRA program of minimum wages, with its unwieldy mechanisms for enforcement, has actually resulted in increasing labor's total purchasing power. The contrary is more likely to be true.

In conjunction with its minimum wages, the NRA set to work agencies for price-raising, though no effective control of prices was contemplated except by a consumers' board animated by pious hopes. Thus, if prices increase only in proportion to the rise in total wages, the public, despite the stupendous effort and excitement, has not achieved a single additional penny in true purchasing power. No radicalism is involved in this plan.

Even the hope that governmental protection of workers' rights in collective bargaining would encourage workers to form strong unions to prevent the lowering of wages was thoroughly unwarranted. The obstacles inherent in the tradition and history of American trade unionism warranted no real optimism in this respect. Mere governmental sanction cannot of itself create a militant labor movement. Millions of workers in the United States had full freedom of organization before the NRA came into the field, and they shied away from labor unions as from the plague. There was no real foundation for the belief that the great mass of workers in the basic industries where no unions exist would eagerly form such unions.

American workers lack any basic understanding of the meaning of trade unionism. Their prejudices and often their experience with union organizations have made them almost as antagonistic and bitter as their employers toward trade unions. So long as the employer is half-way decent the workers have an abiding faith in him and will rather take counsel from him than from "outside agitators." The most that can be hoped for is that the more vigorous and energetic unions which already have a foothold in industry will gain strength through the codes. But this does not greatly help the unorganized and low-paid workers. And without strong and spirited trade unions of lower-paid workers there is no possible way of making the labor provisions of the codes truly effective.

It is to the great credit of the administration that from the very beginning it recognized that the NRA and AAA programs could not alone succeed in stemming the depression unless supplemented by governmental grants of purchasing power to the unemployed. It therefore formulated a combined program of straight relief and public works to make this possible. More recently civil works and surplus relief were added. Here too, however, the program involves no radical departure and follows timid, traditional paths rather than new roads.

By financing these projects through interest-bearing loans rather than taxation, the administration strengthens rather than abates the present maladjustment between those who cannot consume more and those who have no purchasing power at all. Moreover, an appropriation of $500,000,000 for relief was obviously insufficient to make an effective dent in the prevailing misery and poverty. This was especially so since a considerable share of this sum involved no new expenditures, but merely represented a transfer of existing relief expenditures from State and local governments to the Federal Government. The inadequacy of the relief grants, which in 1933 amounted to about $4 per week per family, prevented, of course,

any considerable increase in purchasing power. Even the granting of about $300,000,000 in surplus relief, while providing some extra purchasing power to the farmers, added nothing to the purchasing power of the industrial masses, although it is to the credit of the administration that provision was at least made for supplies of better food.

Despite decades of wasteful and uneconomic experimentation with such programs in England, and the recent declaration of Walter Runciman, President of the British Board of Trade, that such expenditures had made "very little impression on the problem of unemployment * * * and had been found in practice to be a failure," the present administration still pins its faith to public works as a solution of the problem of over 10,000,000 unemployed. We continue our allegiance to the traditional belief that "the remedy for unemployment is work." A most casual examination of the problem, however, shows that even a far greater program of public works than what we now contemplate would absorb but a limited number of unemployed, either directly or indirectly.

The carrying out of an extensive public works program under our form of Federal, State, county and municipal government involves so many difficulties that there is little possibility of quick results. The limitations imposed upon governmental functions in the United States—where the principle of no governmental encroachment upon private business is still held sacred—confine public undertakings to the construction of roads, postoffices, schools, warships, harbors and docks, levees, irrigation projects, bridges, hospitals, subways and grade crossings. Any expansion in these projects primarily benefits the workers engaged in the building and construction industries; secondary benefits accrue to the industries supplying materials for building and construction. The benefits extended to all other industries through a spreading out of the purchasing power of the first two groups are of necessity slight.

The planning of public works is burdened with extraordinary difficulties in the United States. These difficulties are those not only of time and place but also of coordination of the various spending agencies. Even in the Federal Government, attempts at coordination have taken years and have as yet far from achieved their purpose. The task is beset with even graver difficulties in the case of States and municipalities, which are the most important elements in a planned public-works program. The thousands of spending agencies in these localities make coordination a problem of appalling proportions. The city of Chicago, for example, contains upward of thirty-one distinct and independent local governments. In Cook County, outside the city of Chicago, there are approximately 380 additional local, independent and semi-governmental agencies, and to bring order into this chaos is a task of many years. The various municipalities must also overcome charter handicaps and limitations on their bonded indebtedness, and frequently must receive legislative approval of every project contemplated. The removal of these legal restrictions is a herculean labor. Moreover, in many cities referendum votes are necessary, and the education of the taxpayers in this respect is not easy.

The best illustration of the inherent difficulties of a public-works program as a remedy for unemployment is offered by the heroic efforts of Secretary Ickes to spend the $3,300,000,000

allotted by Congress in 1933. Even if it were all spent in one year this sum is small compared to the total public and private construction, which in 1928 was close to $10,000,000,000, while public construction alone that year exceeded by nearly $200,000,000 the present emergency appropriation. But allotments on construction projects do not mean immediate increased employment. Many of the projects decided upon cannot be initiated for many months, and a great many others take years for completion. Even with the Congressional appropriation last Spring of $3,300,000,000, construction work in the Summer of 1933 was lower than in the previous low-record year of 1932.

The Civil Works Administration program must eventually prove little better than our old reliable make-work relief, despite all attempts to avoid it. The many current jests about it may be exaggerated, but they are based upon essential truths inherent in this program. No constructive planning can be possible in four months when the chief purpose is to put money into the hands of workers who are starving. Many of the "projects" undertaken must of necessity be of doubtful value. Moreover, since half the people now being paid by CWA were taken from relief rolls, only half the expenditures, outside the difference between the wages paid by CWA and the relief grants, can be said to represent new purchasing power.

The CWA plan involves nothing radically new. On the contrary, it follows on a larger scale one of our oldest methods of relief. It is based upon the old belief, despite long experience to the contrary, that it is better to spend from two to three times as much money on unemployed persons for the sake of make-believe work than to grant them relief in a self-respecting manner at only half the price. Indeed, from the point of view of future governmental relief policy, the consequences of this program may prove socially dangerous. The foolish and useless projects which must inevitably be built by CWA may remain as monuments to be pointed to as examples of governmental folly and incompetence. In the end the CWA program may actually set us back for many years in future governmental humanitarianism. So far the administration has not accepted the more radical idea that the "dole" is superior because it is only half as costly and because it leaves no marks. Nor has it as yet accepted the newer idea that unemployed workers are not half as demoralized by self-respecting relief grants as by being made to sweep dried leaves from place to place.

Space does not permit an analysis of the various other programs now undertaken by the administration. There can be no question about the administration's sincere desire to bring about an improvement in our social structure. But there is nothing revolutionary or fundamentally radical in its industrial program; at best it follows the precepts of American liberalism. Because it has not adopted any of the fundamental radical means whereby the basic cause of our social evils—the gap between productive capacity and consumptive inadequacy—will be bridged, no really vital or lasting benefits can be expected.

Another Chance for Cuba

By HUBERT HERRING

[Mr. Herring, who contributed to CURRENT HISTORY for October and November, 1933, an account of the downfall of Machado and subsequent events, now describes after another visit to Cuba the recent changes which have led to the setting up of a new government under President Mendieta and its recognition by the United States. Mr. Herring is the director of the Committee on Cultural Relations with Latin America.]

CUBA has turned respectable. After pursuing strange gods for four months, she now comes peacefully back to the fold of the faithful, talks of stability, the payment of debts, the security of foreign capital, of orderly constitutions and peaceful elections. This is the current interpretation of the seating of Carlos Mendieta in the Presidential palace, which was swiftly followed by his recognition by the United States and many other American republics. Whether or not heaven smiles upon the performance, it is certain that there is joy in Broad Street over one nation that repents and promises to pay its debts.

The turn of the new year saw Cuba moving swiftly to the collapse of the Grau San Martin régime. Dr. Grau, in January, presided over a government which, in spite of its failure to win the recognition of Washington, had held a semblance of power and maintained a species of order for four months. His government had been steadily crowded to the Left. The conservative members of the Cabinet had been forced out, and the administration had come to be increasingly dominated by Dr. Antonio Guiteras, the Minister of War and the Interior. Under the inspiration of Guiteras the Grau régime had embarked upon various ventures of radical hue. The seizure of sugar properties by the workers had been tacitly encouraged, pressure was being applied to the utility interests, and the banks were informed that some $4,000,000 of interest payments would not be met "because they were illegal loans contracted by Machado's illegal Congress."

These measures were followed by others of still more alarming character. The Cuban Electric Company, having failed to meet the demands of the workers in its plants—demands which were formulated in the Communist-dominated Confederation of Labor—was seized by the Grau government on Jan. 14 and placed under State control. On Jan. 10 Grau signed an edict which sequestered all government lands and all lands which belonged to the officials and satellites of the Machado régime, and set them aside for division among the landless tenants and workers. Under this edict, parcels of thirty-three acres or less were to be assigned to families under the provision that there would be no selling of the land, no clouding of the titles through mortgages or other liens. These farms were to be supervised by the Department of Agriculture and were to be exempt from all taxes for two years. To relieve further the distress of Cubans—and incidentally to irritate further the sensibilities of Spanish and American nationals in the island—it was ordered

that at least half the employes of any concern in Cuba must be Cubans.

By the turn of the year Grau had succeeded in losing a large part of his support. On Jan. 6 the students' directorate, whose members had furnished the backbone of his support, virtually deserted him. He was left with the support of the versatile and inimitable Colonel Batista, lately of the ranks. Even Batista's support became somewhat lukewarm, as the former sergeant found himself embroiled in a feud with Antonio Guiteras. This feud led to the fall of Grau on Jan. 15.

Stripped of student support, with his own forces divided, Dr. Grau faced a serious massing of hostility. Arrayed against him were all the more conservative groups—the Menocalistas, the Marianistas, and the Nacionalistas; the leaders of the ABC; many of the students. But these were not the only groups to confuse the picture and to harry his course. Labor, dominated by Communist leaders, was in an uproar. Tobacco workers, dock workers, electric workers and sugar operatives—all cheerfully joined in to complicate an already impossible situation. The radicals followed their immemorial course by blocking the one man who honestly hoped to aid them.

The efforts to bring about some compromise between the various sectors broke down. The Uruguayan Minister had been active in attempting such a harmonization, but failed, and in failing flayed Sumner Welles, the American Ambassador, in no uncertain language. The efforts to arrive at a conciliatory compromise were rendered more difficult because of the widely held conviction that the leaders of the ABC were plotting with Menocal and were inviting the aid and cooperation of American financial interests. Grau's chief supporters were divided on the issue of compromise. Batista, who proved himself a shrewd realist, favored compromise as the only way of obtaining a government which would be given the support of Washington. Guiteras, unyielding in his radicalism, preferred that Cuba should work out its own destiny in more radical fashion. This sharp division between the two men made the fall of Grau inevitable.

The break came on Jan. 15. The revolutionary Junta which in September had unceremoniously dismissed Carlos Manuel de Cespedes now met to dismiss Ramon Grau San Martin. This time it was Fulgencio Batista, sergeant become colonel, who proved to be king-breaker and king-maker.

The fall of Grau San Martin is to be explained on various grounds. He had little backing. He was able neither to restrain labor nor to satisfy it. He was deserted by those of the Left as well as by those of the Right. Nevertheless, he held office for four months. This stands out as a remarkable achievement in the light of the varied forces which were allied against him. His success is to be explained only on the ground that Grau himself and the program he expounded responded in genuine fashion to the desires of the Cuban people. Grau had certain intangible assets in his favor. His was a Cuban movement; it sprang from the island itself; it was neither made nor blessed by the United States. Many who would normally have turned upon him were restrained by this fact.

"I fell because Washington willed it," was the explanation which Dr. Grau gave me on the evening of Jan. 17 when I called upon him in his home in the Vedado. This is the interpretation which is put upon the events of January by men of all parties in Havana today.

What share the United States, through its representatives, Mr. Welles and his successor as Ambassador, Jeffery Caffery, had in unseating Dr. Grau is a story, partly known, partly unknown. Some of it is open for all to read, some of it is locked away in the minds of Mr. Welles, Mr. Caffery and others who share the secrets of the State Department.

The hidden record cannot be opened here. Did Mr. Caffery persuade Colonel Batista that the best interests of Cuba demanded the removal of Dr. Grau San Martin? Did Mr. Caffery persuade Colonel Batista that the only hope for recognition by Washington lay in substituting a man more acceptable to American leaders? Did Colonel Batista conclude from his conversations with Dr. Caffery that the only hope for an orderly government in Cuba, a government which would continue to pay the Colonel his salary and give him a valued place of power, would lie in following the lines suggested by Mr. Caffery? These are questions. I put them without prejudice. The Cubans, of all varieties, answer with an emphatic "yes." In other words, they are saying that the American Government, professing to forswear the time-honored ways of diplomatic intervention, has intervened again. They are saying that Mendieta was chosen President of Cuba in the American Embassy. They may be right or wrong. I do not know.

The open record is unmistakable. The United States did not recognize Grau San Martin. His government was in power from Sept. 5 to Jan. 15. With the exception of stringing gunboats around the coast of Cuba, the United States did nothing to provoke disorder, nothing to encourage revolts. American diplomacy during this period was scrupulously correct. The fact remains, however, that the United States helped to unseat Grau by withholding what in the long run is an absolute essential to the stability of a Cuban government—the recognition of the American Government. To a limited point, the failure to recognize aided Grau. It persuaded the Cubans that Grau was not there by permission of the United States. Beyond that point, non-recognition became an increasing threat to his stability. Non-recognition meant the withholding of credit, and without credit the sugar crop would not be harvested. It meant the postponement of negotiations for the fixing of a sugar quota, for the arrangement of more favorable tariff terms. Without these Cuban economic life was doomed.

The failure to recognize Grau remains a scar on the rapidly improving relations of the United States with Cuba. It places a distinct handicap upon President Mendieta. It increases the Cuban conviction that Mendieta has been put in to protect American interests. This may not be the fair judgment, but it is widely held in Cuba today.

Grau was deposed on Jan. 15. The choice of his successor proved to be a more complicated matter. The feud between Batista and Guiteras was the chief element of discord. Batista was committed to Mendieta; Guiteras hated Mendieta and had no enthusiasm for any one who could be accepted by Batista. A compromise was made on Carlos Hevia, and he was summarily appointed Provisional President and took office on Jan. 16. Hevia is the 34-year-old son of Aurelio Hevia; he is a graduate of Annapolis, a competent engineer, a bitter enemy of Machado, one who served his term in prison and in exile, and was Secretary of Agriculture under Grau. He was inaugurated President without any evidence of popular en-

thusiasm. The Presidential salute of twenty-one guns was unexplainably cut to nine guns—presumably on Batista's order. His two-day term in office was marked by denunciations by mobs and attacks by many leaders in all sectors. He had been promised the support of Mendieta, but Mendieta's own party disowned the act. Batista, who had persuaded Hevia to accept, turned upon him. It seems clear that Batista used Hevia for his own purposes in winning the victory over Guiteras. With Grau dismissed, with Hevia powerless, Batista proceeded to move toward the appointment of Mendieta. The simple sergeant proved himself to be something of a politician after all.

Carlos Mendieta took office at noon on Jan. 18. The enthusiasm of the crowd which surrounded the palace was the first spontaneous and wholehearted thing which had happened in Cuba since that memorable Aug. 12 when Machado left the country. Discount as you will the enthusiasm of crowds, the fact remains that Mendieta comes nearer to being a popular hero than any man in Cuba today. Sixty years old, veteran of the war for independence, his record is honest if not brilliant. Even Machado added his testimony to this effect: "Mendieta is the most honest man in the Opposition." He did not wish the office at this time. He wanted to wait and stand for election when and if a regular election is held.

The new President takes office with a substantial body of support. He has been recognized by the American Government. He has the ABC behind him and Miguel Mariano Gomez's substantial party (Gomez has been returned to his former post as Mayor of Havana). He has the support of the business community, Cuban and American. Arrayed against him are the Communists, the Left-Wing students and the younger radical intellectuals generally. It is not a large group, but it is active and determined.

Mendieta faced immediate tangles. There was the tie-up of the hospital and medical service. In January 25,000 physicians went on strike in opposition to Grau's efforts to organize a government-controlled union of physicians. The strike was also directed at the great Spanish regional mutual benefit societies (a type of organization which has grown to great estate in Havana, the largest having a paid membership of over 50,000) in the effort to force them to exclude from their free medical service any member earning more than $100 a month. This strike, which had brought incredible hardship to the people, was finally ended with a thirty-day truce.

There was the widespread hunger throughout the island. Mendieta has obtained a $10,000,000 food credit from the United States. Substantial shipments have already been made, and arrangements are being made to distribute the food for the relief of the island's needy.

There was the conflict with the utility owners. Grau had taken over the Cuban Electric Company. Mendieta has already returned control of the plants to the company. This has enraged many of his friends and unless he follows this move by demanding a scientific revision of the company's rates, his attitude will be construed as playing the game of American business interests. There seems no doubt that electric rates are excessive.

There are strikes. Labor in Cuba, long repressed, is led by Communists. They view the present hour as their golden opportunity to claim and gain concessions. They steadfastly refuse to take account of the bankrupt condition of the island's industry and will

probably refuse to cooperate upon any workable plan for economic rehabilitation.

Mendieta faces these tangled problems as he takes up his office. Those who know him best speak affectionately of him and bear testimony to his honesty. They also say that his great weakness is his own lack of assurance. He is surrounded by a group of political satellites who are abler but less honest and less pure in their patriotism. Much depends upon their influence. His Cabinet is on the whole an excellent one, conservative in emphasis, but able and honest.

Cuba has made a swing to the Right. There will not be much social experimentation under Carlos Mendieta, nor need American investors shiver at the bogey of confiscation. They may not get their interest and dividends, but that will not be Mendieta's fault. This swing to the Right will alienate many of the best that Cuba has. The youth of Cuba, to which we have looked anxiously and with hope, view the present developments as a betrayal of their revolution. They can be counted upon to be violent in their denunciation and in their attempts to obstruct and to overthrow Mendieta. They will inevitably lay the blame for all that happens upon the United States.

In spite of all these handicaps, Carlos Mendieta has a chance to lead Cuba through a period of reconstruction and preparation. He plans to work toward the calling of a Constituent Assembly, the adoption of a Constitution and the election of a President. This will require not less than a year. If, in the meantime, he can work out some of the more pressing economic questions, and can conclude fresh agreements with the United States, and can assure free and fair elections, he will have served his turn.

There are five steps ahead which concern the relations of the United States with Cuba:

First, an agreement must be reached whereby Cuban sugar is given a definite and increased quota within the American plan. A minimum quota of 2,000,000 tons is asked for.

Second, a strong appeal will be made for a further preferential on the United States sugar tariff for Cuban sugar.

Third, an effort will be made to secure radical revision of the interest rate on the Cuban national debt.

Fourth, a new land policy is necessary to aid Cuba in moving toward a greater measure of economic sufficiency. The Grau régime launched one experimental measure; others are needed to get more Cubans working the soil for the production of their own foodstuffs. The cooperation of the United States may be needed at this point.

Fifth, the permanent treaty between the United States and Cuba calls for revision. President Roosevelt has already expressed the eagerness of the United States to move in this direction. The administration in Washington is as anxious to rid the United States of the Platt Amendment as is Cuba to be set free. The events of the six months since the fall of Machado have served to emphasize the futility of the present relationship. The time has gone forever when we can have neighbors who are half slave and half free. That has been the status of Cuba for thirty-five years and it has produced nothing but disaster.

Recovery Through Taxation

By HAROLD M. GROVES

[Mr. Groves, who is Professor of Finance in the University of Wisconsin, was recently appointed tax expert to the United States Treasury, but the appointment was immediately canceled by Secretary Morgenthau.]

THERE are many people who reserve their patriotism for times of war, an unfortunate fact because there are so many occasions in times of peace which call for loyalty of the first order. One is payment of direct taxes, especially such direct taxes as the people of the United States should pay during the next decade if governments are to meet the responsibilities they have inherited from the war and the depression, check inflation and maintain a proper balance in the economic system.

The modern economic system is efficient in many respects, but terrific maladjustments and human insecurity are the price paid for its efficiency. Formerly—in theory at least—the hardships of the system were allowed to fall where they might, on the assumption that individuals would thus be induced to readjust themselves to new conditions. The majority of us are now too humanitarian to follow the old rule. Some sense of social solidarity is replacing part of the old individualism. Men now insist that the victims of the economic system either be aided temporarily while adjustments are being made, or be given permanent relief if no adjustment is possible. The new philosophy does not accord with theories of free competition, but it is difficult to see how the economic system could retain enough emotional support to avoid an explosion were it not to continue in its present direction.

The most important group of victims of the economic system are the unemployed. They are a varied group. Some are without work simply because of the slump in industrial activity; they can be taken back if and when business recovers. Others are unemployables, unfitted by the war or the depression or other causes to resume a place in industry. Many are unemployable because they are past 40, and industry does not want gray-haired men. Still others are unemployable only in the sense that their skill is no longer required in industry—it has been displaced by new machinery and new techniques of manufacture. But these unemployed and unemployables have become a problem of government.

Today we are providing jobs for large numbers of men at government expense in order to increase the demand for labor. This is enormously expensive. Many are asking the question, How long can it be continued? Others are asking, Can it be discontinued? Is it going to be possible to put millions of men back on the relief rolls after they have become accustomed to government pay checks? Possibly once the pump is primed, the unemployed can be reabsorbed into the labor force of private business, but whether or not this hope be realized, a large crop of unemployables will remain on the government's doorstep. Some of these will require rehabilitation and can be employed thereafter; others must remain a permanent charge upon government.

Even the most optimistic observers admit that the unemployed are certain to be a much greater problem in the future than they have been in the past and to require a much larger expenditure of public money.

Another victim of present maladjustments is the farmer. It now appears that we have far too many farmers and far too much farm produce to sell at prices which will yield farmers an adequate profit. This maladjustment resulted from a rising economic nationalism which has closed many of our foreign markets, from technological improvements in agriculture itself and from improved refrigeration of foodstuffs. Logically, the maladjustment might be cured if farmers would quit farming and abandon farms. But the farming population is not mobile enough to make this adjustment easily, even if there were any inviting field into which it might move. Probably the adjustment cannot be made at all without governmental assistance.

The farmers include a very large section of the population. Many of them have known a relatively high standard of living and bitterly resent the hardships which they have been compelled to endure. Both for political and for more justifiable humanitarian reasons it is going to be necessary to lend agriculture the supporting hand of the government for many years to come. Some of this assistance can be financed by taxes imposed upon farm products, but some of it will have to come from the public treasury as a subsidy. Undoubtedly this will constitute an important item in future Federal budgets.

During this depression governments, especially State and local governments, have made wholesale sacrifices in the standards of public service, particularly in the field of education. A few facts may be cited from a recent announcement by the Commissioner of Education. Nearly 2,000 rural schools in twenty-four States failed to open in the Fall of 1933. One out of every four cities has shortened its school term; 715 rural schools are expected to run less than three months. One out of every four teachers in the United States is now teaching on a salary of less than $750 a year, only slightly above what the blanket code allows an unskilled factory laborer. Pupil-teacher ratios have increased almost universally. Thus education has apparently been skimped far beyond the point which a nation with the resources and traditions of America should endure. Eventually a national minimum of educational opportunity will have to be established. Moreover, unemployment, the reduced hours of labor, and the complicated problems of our modern democracy all justify a substantial expansion of the educational program. Adequate provision for education in the future will require a large outlay of money.

There are, of course, many possibilities for genuine economy in public expenditures. Local government, particularly, is poorly organized and improperly manned. An improvement and extension of the merit system in civil service is long overdue. One of the most unfortunate features of the drastic curtailments of this depression is that they have been so unselective. Improving the quality of government is a task that is never completed and one that calls for greater effort now than ever before, but the program of expanding public expenditures outlined above cannot wait for perfection in government. And the savings which can be made will be small compared with the new outlays needed.

More and more often these days the question is heard, Where is the money

coming from? If governments are to assume their full responsibilities and meet the pressing claims for support mentioned above, where can they find the revenue to pay for the program? It may be said that the money can be borrowed, and that is how in the main the Federal Government is financing its present program. Borrowing money, however, has its limitations, for it increases the fixed charges of government in the form of mounting interest bills. Moreover, government bonds have to be paid some time and by somebody. And if borrowing is carried too far, it defeats itself by weakening the credit of governments. An unbalanced budget may be accepted for a time as a desirable way to meet an emergency situation, but there is a limit to the period during which this luxury can be extended.

Another method which is now proposed for meeting governmental bills is inflation. A little inflation, like a little borrowing, will not bring down the national structure in a heap of ruins. A certain amount of inflation was used to finance the war, and this inflation was one of the causes of America's war prosperity. But the popular feeling that inflation is dangerous is not founded on an illusion. Inflation is dangerous because if it is carried too far it causes people to lose confidence in their currency and credit. The natural result of this fear is more inflation, and then a vicious circle is started. Where this circle leads has been witnessed in European countries.

The methods of finance described above cannot be accepted as more than temporary expedients at best. The alternative to them and the sound way to pay for governmental obligations in the long run is taxation. If the program of governmental expenditures that the times require is to be carried and undue inflation along with a collapse of governmental credit avoided, we must expect to pay taxes and pay on a scale which America has hitherto not known, at least in time of peace. It is true that even without changes in the tax system, a revival, even a partial revival, of prosperity will greatly augment the public revenues, but considering all the new obligations of government and the mounting burden of interest, it seems fairly clear that the existing tax system will not be equal to the task.

It may be asked, first of all, whether it will be the Federal Government or the States that will be called upon to enlarge their tax revenues. The answer is that most of this load will and should be borne by the Federal Government. The Federal Government has already assumed much of the burden of caring for the unemployed and rehabilitating agriculture. Before many years it will be called upon to assume a substantial part of the cost of education, for education is a national concern. People on the Atlantic seaboard cannot accept with complacence a breakdown of the educational system of Arkansas. Eventually the nation's entire ability to pay must be placed behind its schools and a minimum standard of educational opportunity for all must be assured.

Should the taxes to finance our expanding governmental expenditures be direct or indirect? So far as possible taxes should be direct. The boundary line between direct and indirect taxes is not very distinct, but, in the main, taxes are regarded as direct when they are so placed that individuals who pay them will bear their ultimate burden. Taxes are indirect when they are imposed upon a group in the expectation that this group will pass them on to others. Income and inheri-

tance taxes are direct; sales and excise taxes are indirect.

Why are direct taxes preferable? It now seems fairly clear that one of the maladjustments which was both a cause and an effect of the depression was and is the overdevelopment of capital and saving compared with purchasing power. Take the capital side of this equation first. From 1922 to 1929 more than $8,000,000,000 was invested abroad, an important outlet for surplus capital. But what good did these foreign investments do us? Many of them were imprudent, and had to be written off as such. But even if all of them had been carefully and wisely selected, what assurance was there that the American people would ever receive, as a result of these investments, goods which would make possible a higher standard of living? The nation's tariff policy had made it very clear that goods from abroad were not wanted, and that the home market was regarded as none too large for our own producers. In spite of heavy investments abroad our capital supply was ample to overbuild American industry in almost every line.

The other half of this picture is the shortage of purchasing power. It has become apparent that America's high-geared, much-mechanized industrial plant can no longer be used to capacity unless markets are strengthened. The present NRA program is an attempt to create the wide distribution of purchasing power upon which a better market must be based. The program attempts to do this by promoting higher wages and shorter working hours, but it will be defeated if the price of consumers' goods is raised in proportion to the increase in industrial payrolls. There is, however, a method of distributing purchasing power which does not involve this hazard. That method is direct taxation, based upon ability to pay, to support a program of desirable governmental expenditures.

There is another approach to the problem of suitable taxes to pay for the recovery program. As we said before, the price of our economic progress under the capitalistic system has been maladjustment and human suffering. Millions of farmers and laborers are now paying and will have to pay heavily in privation and humiliation, notwithstanding the most generous relief program possible. It must be remembered that some 20,000,000 people have been on relief during this depression, and many more have narrowly escaped. The heaviest taxes based on ability to pay and levied upon the beneficiaries of the economic system would be entirely incommensurate with the toll which the system has taken from its victims.

It will be said that the rich as well as the poor have lost much during this depression. And that is true. Consider, however, the figures which give some indication of the relative sacrifices. Figures recently given out by the United States Department of Commerce indicate that wages fell off 60 per cent from 1929 to 1932. Interest and dividend payments fell off 30.5 per. cent during this period. Department of Agriculture figures show a falling off of gross farm income during this same period of 56.9 per cent. Thus it appears that while all classes have lost heavily during the depression, its greatest wreckage has been suffered by the farmers and wage-earners. And of course figures do not tell the full story. Farm income and wages are distributed to millions of people who had small if any reserves to cushion the blow of the depression.

And then there is the matter of unearned income. No unprejudiced person could live through this depression

without being impressed by the obsolescence of the old doctrine that people get rich by serving the commonwealth. The national income, particularly that in the higher brackets, is heavily weighted with unearned gains. Probably this unearned income cannot be singled out for special taxation, but its existence warrants heavier taxes upon income in general.

The conclusion must be that both justice and expediency require an increased reliance upon direct taxes, based on ability to pay, to meet the new and enlarged demands upon governments. What can be done to the tax system to increase the revenues from direct taxes?

First of all, the income-tax law needs to be mended and will be to some extent if the pending revenue bill is passed by Congress. Many of the holes in the law are not new, but the Senate committee's investigation of Wall Street has awakened the country to the fact that they exist. For example, take the unrestricted deductibility of capital losses. One of the Senate committee's witnesses described how he had "sold" a big block of shares to his daughter to "realize" a heavy loss. These shares stood in the daughter's name for sixty days and then were transferred back to the witness at the same price at which he had "sold" them. Not a cent changed hands, and the daughter did not even know about the transaction. This "loss" was sufficient to offset all the other income which this very wealthy taxpayer received during the year, with the result that he paid no income taxes at all to a government which was making a desperate effort to balance its budget.

Not all capital losses are as unreal as the one just described. But in general it is true that capital gains and losses represent a distinct kind of income. They result from the occasional sale of securities and real estate, and not from a regular flow of income such as arises from the sale of merchants' or manufacturers' inventories. The difference is recognized in the accounts of the taxpayers. It is recognized also by the income-tax laws of foreign countries, several of which ignore capital gains and losses entirely.

Capital gains, however, represent ability to pay of the first order and should not be ignored in the tax system. Such gains are usually fortuitous and unearned in character; or they represent the reinvested earnings of corporations, earnings upon which the stockholder has escaped taxes entirely up to the time of the realized capital gain. The best solution of this problem is to limit capital-loss deductions to capital gains and to provide that in no case may a capital loss be offset against current income, such as wages or interest or rent.

An ever-widening gap in the Federal income tax springs from the exemption of government interest and salaries. Total governmental obligations, interest from which is exempt from the Federal or State income taxes, or both, now run to some $42,000,000,000. When it is recalled that the latest estimates of the national wealth range from $150,000,000,000 to $250,000,000,000, it can be seen that exemptions cover a substantial portion of what there is to tax. The salaries of all State, county and municipal employes (including public-school teachers) are exempt from the Federal law, and Federal salaries are exempt from all State income taxes. Most of these overgenerous exemptions are founded upon doctrines in neither the Constitution nor the statutes, but laid down years ago in decisions of the United States Supreme Court. This child of

the court has outlived its usefulness, even if it be conceded that it originally had a sound reason for existence.

The income tax is frequently avoided by the creation of personal holding companies, which receive dividends that would otherwise go to individuals and be taxed under the surtax. Dividends received by the holding company are reinvested for the individual, and escape the surtax. The main purpose of the personal holding company is to avoid taxes; it has no important economic function and should be prohibited or taxed out of existence.

Many taxpayers give away or otherwise dispose of their wealth to members of their families. Usually this can be accomplished without loss of benefit from or control over the taxpayer's property. It results in several lesser incomes instead of a single greater one, and thus avoids the higher rates of a graduated tax. This leak in the tax laws cannot be entirely avoided, but it could be very much reduced by making the income of the family (husband, wife and minor children) a single unit for purposes of taxation.

Space will not permit a further discussion of these and other holes in the tax dam through which large streams of potential revenue are escaping. The revenue bill now pending before Congress is a sincere attempt to block many of the holes. But it ignores tax-exempt securities and salaries. And it is open to criticism because of the partial exemption of capital gains which it provides. There may have been a time when we could afford the luxury of a leaky revenue system, but that time has passed. Moreover, the taxpayer who contributes heavily from a reduced income to support the government in time of need should have the assurance that all others who have his ability to pay are contributing on the same scale.

Many feel that Americans are taxed to the limit, and that direct taxes even now border upon confiscation. A comparison of the relative levies here and abroad throws some light on this matter. Such a comparison follows:

Comparison of Income Tax.

(Married person, no dependents, all income from salary.)

	Per cent tax to net income			
Net Income.	U. S.	Great Britain.	France.	Germany.
$1,000	0	0.88	3.378	7.90
2,000	0	5.57	8.505	15.84
3,000	0.066	10.38	12.195	18.11
5,000	2.0	14.22	17.146	21.59
7,500	3.4	16.29	22.017	26.02
10,000	4 8	18.62	25.249	29.89
15,000	6 8	22.95	31.255	34.46
25,000	10.08	29.47	38.039	39.78
50,000	17.20	39.30	47 432	45.13
100,000	30.1	48.10	53.651	47.44
500,000	52.72	61.58	53.930	49.49
1,000,000	57.11	63.91	53.965	49.74

Conversion Units—Great Britain, £1=$4.86; France, 1 franc=3 92 cents; Germany, 1 mark=23.82 cents.

Comparison of Death Taxes in the United States and Great Britain—Entire Estate to Widow.

(Conversion unit: £1=$4.86.)

	Per Cent of Tax to Net Estate	
Net Estate Before Exemption.	United States.	Great Britain.
$1,000	0	1
5,000	0	3
10,000	0	3
15,000	0	3
25,000	0	4
50,000	0	5
100,000	1.5	9
150,000	3.33	12
200,000	4.75	14
300,000	6.50	17
400,000	7.62	19
500,000	8.50	21
600,000	9.25	23
800,000	10.56	25
1,000,000	11.75	27
2,000,000	15.77	33
3,000,000	18.45	37
5,000,000	22.99	41
10,000,000	30.94	51

Source—*Double Taxation, Preliminary Report of a Subcommittee of the Committee on Ways and Means Relative to Federal and State Taxation and Duplication Therein* (1933), p. 237.

It will be observed that it is not until the $100,000 level is reached that the income tax imposed in the United States is half as great as that in Great Britain, and not until the $3,000,000 level is reached that the estates tax is half as great. The comparison would

be even more favorable to the American taxpayer if the present depreciation of the dollar were taken into account. Although, unlike Europeans, American taxpayers frequently have State income and inheritance taxes, State inheritance taxes are allowed as a credit against the Federal estates tax, and State income taxes are deductible as an expense in computing the Federal income tax.

Disregarding any question of possible increases in direct taxation, we are likely to be confronted with insistent demands for decreases before many months have passed. Already, with the first signs of business prosperity, demands for a reduction in income and estates taxes are being heard. Pleasant as it would be to give everybody what he wants, it would be unwise, if not disastrous, to follow again the line of least resistance which characterized the Nineteen Twenties. It will be remembered that the income-tax schedule was reduced once every two or three years during the decade before the depression. This was open to much justifiable criticism during the Twenties; it will be indefensible during the Thirties.

When it comes to taxpaying patriotism the British have set an example for Americans to emulate. Stanley Baldwin, former Conservative Prime Minister and Chancellor of the Exchequer, in addition to the very large sums in taxes which he has paid for many years, is reported to have presented the British Treasury recently with a substantial donation. Some years ago Lady Houston inherited $30,000,000 which, because of some feature of the British law and the nature of the investments, was exempt from the inheritance tax. Nevertheless, on her own initiative she turned over a third of her estate to the British Treasury. It is said that an Englishman suspected of fraudulent attempts to evade the taxes he owes the British Government finds himself avoided by his social group. One has to strain one's imagination to picture incidents and attitudes of this sort in the United States. The British believe in government, and they are devoted to their country; they do not wait for a war to express their loyalty. It remains to be seen whether or not Americans can develop a taxpaying patriotism of the British brand. More may be at stake in this endeavor than the average citizen yet realizes.

Junker versus Nazi

By HARRISON BROWN

[The writer of this article is an English journalist who has long been acquainted at first hand with conditions in Germany. He was again in that country during the first few months of the National Socialist government until his bold criticism of the new régime made it dangerous for him to remain there.]

THE thesis of the National Socialists and the standpoint of their foreign apologists is that Germany has had her revolution and now wants to live at peace with the world. In both respects the claim is controversial and in both the necessity for drastic qualification at least can be proved. It is as untrue to say that Germany has yet had her revolution as it is to say that Hitler "seized power." The Nazis were hauled into office by the Junkers and the industrialists after they had passed the zenith of their influence and had begun to disintegrate.

Hitler has not destroyed the old régime; he has supplanted a weak interregnum of Social-Democracy which had already collapsed in July, 1932, with the surrender of Severing, just as the old régime itself had collapsed in 1918 with the surrender of Ludendorff. The impetus created by the rank and file of the Nazis in the wake of Goering's terroristic activities carried Hitler considerably further than his own timorous leadership would have done. It enabled the party to turn the tables on their Nationalist allies; it has enabled spokesmen all down the line to proclaim the glory of the *Führer Prinzip* (leader principle); by the sensational destruction of what are considered elsewhere the cultural bases of civilization it has created the impression that Germany has been wholly *gleichgeschaltet* (coordinated) to the Nazi pattern.

For the moment at least most of that is bluff. The power factors of the old régime have been eliminated from the surface only; it is they who still run the country, and not even the best of them, for it was part of the bargain that the decent element among the Nationalists, represented by such men as Oberfohren and Düsterberg, should really be got rid of. Not otherwise could the Nazis have had free rein to cause such devastation and to wreck the highly efficient civil service for the benefit of incompetent party job-seekers. At headquarters the *Führer Prinzip* does not work, for there are many *Führers*, most of them at cross-purposes.

But if the functioning of the leader principle is a myth, the incessant proclamation of it is important for several reasons. By the fanaticism of his single-track mind and his flair for popular sentiment, Hitler has retained the leadership of his movement against many obstacles. Apart from that, he is a vacuum. The *Führer Prinzip* is doing for him now what his audiences have done for him in the past. Alone, or in committee, he has always been a nonentity, subject to fits of melancholia; faced with a crowd he has a capacity for imbibing their magnetism and throwing it back to them in concentrated form. Suggestion may yet make him a leader, in the sense of statesmanship,

by means of this same capacity for serving as a channel. But the fact that he is still far from maturity is of great importance. On the manner of his development may hang the future of Germany and of the Western world.

At present, in any case, Hitler is the sport of intrigue and the marionette of circumstances as much as any puppet king that ever was. To a simple mind the complexities of modern government are unutterably confusing, and in these days especially Dr. Hanfstaengl is often called upon to play the piano to cheer his depressed chief.

This period is indeed portentous, for even outwardly the theory of the complete supremacy of the Totalitarian State is being assailed. The joint denunciation of the paganism of the Nazi "German Christians" by the Evangelicals and Catholics strikes more deeply than any mere struggle for liberty of conscience, upon which alone a powerful withdrawal before such numbers would be easily possible. It strikes at the dearest phobia of Hitler himself—anti-semitism. For propaganda purposes his coming to power destroyed such bogies as unemployment, corruption, the Junkers, &c., and attention has therefore been largely concentrated upon "racial purity." The Jew has been more than ever the wire through which all criticisms of brutality and delay have been short-circuited. How can there be a volte-face on such a question? How stem the flood of anti-semitism which is the base of all new laws and all new education? For the Nazis the church crisis is the most important event since their arrival in power, for it is one in which compromise is as inevitable as it is dangerous.

Foreign policy, too, is proving less simple than it seemed. In *Mein Kampf* Hitler has written: "Let this be perfectly clear. The inexorable deadly enemy of the German people is and will remain France." Arrived in power, there were demonstrations around the frontiers, "strong-hand" talk by Nazi leaders, finally strong action at Geneva. Then a sudden change, a proffering of hands across the Rhine, much talk of "gestures." Hitler had acquired the ambition to be the man who solved the Franco-German quarrel. Hitler is always sincere; that the French realize. They did not doubt the momentary sincerity of his interview with Fernand de Brinon, published in *Le Matin* on Nov. 22; they only feared that later there might come another somersault. Their suspicious minds thought, too, that some of the Nazis might be as militaristic as they said they were; they even imagined that the frantic preparations for war were not entirely a matter of prestige and of that "inferiority complex" which Hitler claimed to have destroyed. They noted the unprecedented importations of such an all-important war material as nickel, the purchases of scrap iron and the prohibition to export it; they watched the efforts of the government to make the German people "air-minded," and the drilling of the whole male population over the age of 10.

Nevertheless, the French presented a new offer on disarmament. It is no secret that Hitler was at first delighted with this document. "You give me more than I asked," he is reported to have exclaimed to the French Ambassador. The French offer was certainly an advance; had it come five years earlier most subsequent history would have been different. It looked for security to the reduction of French armaments, but it also required no rearmament for Germany. It was worded with extreme politeness. And

yet it took the Germans many weeks to answer. The old officials found several snags in it; the heavy industry, which largely controls the Nazi Economic Council through its members Thyssen, Voegler, Boehringer and Krupp von Bohlen, also did not approve of being balked of further orders.

Hitler's disillusionment cannot have been less painful on account of his first innocent burst of enthusiasm. So this was the tricky foreigner he had heard about! Soon a revulsion of feeling became evident in his speeches. There crept in a note of bluster which certainly did nothing to convince outside opinion that Nazi conversion to peace is either profound or permanent. "The consideration of other nations is better than their friendship," he said, as the German reply was being drafted, and the notorious Roehm talked about giving a German face to the world.

In addition to all this there is the economic situation. The Ministry of Finance may pretend to optimism, but the leaders have no illusions about the state of affairs. Nazi statistics on unemployment are obviously open to question; the "dole" figures are no guide at all, for not even all the registered unemployed receive the dole—notably domestic servants, agricultural laborers and bargees. *The Economist* (London) has pointed out that "fresh employment was only found at the expense of those already occupied, by cutting down their hours of work and reducing their wages accordingly." Real wages are lower today in Germany than they have been for fifty years. At the beginning of 1933 the total number of unemployed was estimated at about 8,000,000. A Nazi paper, the *National-Sozialistischer Volksdienst*, of Jan. 12, 1934, says that today 7,000,000 people are being assisted by the Winter He to the extent of an average 7 m monthly in money or kind. Wher dependents of the assisted peopl included, this means that at lea quarter of the total populatio Germany is receiving help to th tent of a very small monthly am

These figures and these diss factions of large groups do not claim that National Socialism failed. They do, however, ind that it has as yet done nothing t prove the material well-being o people. And that alone is suffi to indicate further changes in s That the changes will come by m of pressure from the "have-not the movement upon the forces n occult control is fairly certain.

The alliance of Junkers and i trialists with Brown fascism came being under various forms of sure and with different specific c tives. The industrialists sought a ular mask under which they destroy organized labor. Hitler faced with the disintegration o movement and clutched at the chance to save it. By so doin proved the correctness of G Strasser's analysis of the situat few weeks earlier, when that l had sought to persuade Hitl throw in his lot with von Schle Strasser was disgraced and for riod was a refugee in flight. H now for some time been back in many and, as a chemist, holds th portant post of manager of the S ing-Kahlbaum factory in Berlin of the chief potential poison-ga tories in the country. Strasser h ways represented the extreme r tionary Socialist wing of the l not far removed from communi is not unlikely that his influenc advice are already felt inside th ring factions of the Berlin leade

The position of the third party to the alliance was the most interesting and may still prove to have been the most important. Since the war the Prussian Junkers had regained their political influence, but their economic situation had gone from bad to worse. They had survived the collapse of their world in 1918 by the simple expedient of retiring to their estates and keeping quiet. Outposts of the old régime in the civil service watched every opportunity of reasserting the claims of the traditional ruling class. Above all, the old professors throughout the educational system never ceased to stab the Republican government in the back.

Once only in the succeeding years was there an interruption in the slow return to power of the Junker. At the time of the Kapp Putsch there were peasant risings throughout Mecklenburg, Pomerania and East Prussia. A few landowners were killed; often the scenes resembled those of the French Revolution, with aristocrats facing an angry mass of agricultural workers armed with pitchforks and old guns. But the latter were quickly outwitted, and the revolt subsided.

Until a year ago, in outlying spots, it was still possible to see the peasant kiss the hand of his overlord. Feudalism was only just out of sight in East Prussia, nor was the general level of culture of the Junkers themselves far removed from that period. Heine denounced the Prussian aristocracy as "a handful of common nobles who have learned nothing beyond horse-trading, card-sharping, drinking feats and similar stupid, rascally accomplishments. Such are the men who think they can fool an entire race, and, moreover, the race which invented gunpowder and printing and *The Critique of Pure Reason.*"

Nevertheless, the doom prophesied by Heine has been a long time coming. For nearly a hundred years after he published his diatribe the Junkers have continued "to fool an entire race." Not even their own tenants saw through them. In 1932 the decline in prices of meat and dairy produce had become catastrophic for the peasant farmer. Yet the latter never saw that a chief cause of his ruin was the prohibitive grain duties imposed for the benefit of the Junker. Despite the reformers of 1848, despite Free Trade, Caprivi, Bismarck, the war and the "Revolution" of 1918, this tiny minority of a few thousand families, in an ocean of 65,000,000 souls, has disappeared into the trough of one wave only to reappear on the crest of the next.

By 1924 they were a power in the Reichstag, advocating, among other things, an anti-semitic program. In the Luther Cabinet of 1925 they held four seats. Finally, when Bruening resorted to the idea of "Presidential government," they began to come into their own. With parliamentary control out of the way, intrigue inevitably played a greater part than ever in public life, and just as inevitably did the intrigues centre round the aged President whose edict had become law. If von Schleicher was the political assassin who actually dispatched the Catholic Chancellor, it was the Junkers who had undermined his authority.

Von Papen's six-month term in office was only important in that he fell. His "Cabinet of Barons" was a barefaced attempt on the part of the Junker clique to reimpose its domination and prepare the restoration of the monarchy. That at least the German people would not stand. Their refusal to tolerate von Papen was

destined to be the people's last expression of democratic sentiment. Henceforth when they voted, they voted themselves into chains.

Von Schleicher, who followed von Papen, sought to profit by the latter's mistakes and to redress the balance. He fell foul of the Junkers, however, on several points. In one of his last editorials, written as the intrigues were thickening, Theodor Wolff said: "These weeks the hungry ravens are circling ever more narrowly round the ancient tower." Von Hindenburg was indeed besieged by the raven Junkers. And they, as Wolff continued prophetically, "during, before and since the war were always great patrioteers before the people and great profiteers for themselves. Why should it not be the same this time?" With dry sarcasm the great editor remarked that the makers of the Weimar Constitution had not foreseen the President's son.

The full story of the frantic palace intrigues of those weeks will not yet be disclosed. When it is, the "mystery" of Hitler's advent and the origin of the Third Reich will become much clearer. The root cause was, as ever, the desperate struggle of the Junkers to continue to overrule economic fact by political power. For almost the last time the Junkers betrayed their country and for the conservation of their great estates threw 65,000,000 people into the maw of fascism. Bruening had fallen because he threatened to exempt bankrupt estates from the proposed agrarian moratorium. Von Schleicher intended the same, but he did more. He encouraged the exposure of the scandals of the Eastern Relief Act (the *Osthilfe*).

It is unnecessary to go into the details of the sordid swindles uncovered by the Budgetary Committee of the Reichstag. Suffice it to say that this fund for the provision of credits for agriculture in East Prussia was found to have become a Junker racket. Small farmers got little; the Junkers helped themselves. In every conceivable way these loud-voiced patriots, who for generations had battened on the German people, were caught red-handed robbing the till of their bankrupt Fatherland. Credits granted for the reconstruction of one property were found to have gone in the purchase of others. In some cases estates were "reconstructed" three times in succession, and on a fourth bankruptcy were ceded to a daughter who was a minor, in preparation for another raid on the fund. Others bought automobiles and hied them to the French Riviera. The press bore vicious headlines incriminating famous names and the waves of the storm washed high. The climax was reached when rumors began to circulate concerning the President's entourage.

Neudeck is the unpretentious estate in East Prussia upon which President von Hindenburg spent his boyhood, and for which he has a great attachment. Quite early in the heyday of intrigue the wiliest and most cynical of the Junker clan, Herr Elard von Oldenburg-Januschau, conceived the brilliant idea of a "national gift" of the former family estate to the old President. Neudeck is rich in sentiment but poor in soil; it stands in urgent need of "reconstruction," a typical East Prussian estate indeed, which never has and never can pay its way. Installed at Neudeck, the President found himself surrounded and courted by noble families. There the simple old soldier became, like them, a needy squire. Little imagination is needed to link this factor with the stranglehold which Junkerdom had again established over politics by 1933.

The *Osthilfe* scandal caused a panic, and by no means only among those whose names were already disclosed. The sack of secrets was not exhausted when its mouth was sealed by the overthrow of von Schleicher. About Neudeck itself, for example, there was much that was not clear. The title deeds had been made out to Major Oscar von Hindenburg, the President's son and aide-de-camp, who for years had been increasingly the channel of reactionary approach to his aged father. It was freely rumored that no donation tax had been paid on the homestead and that provision had been made for future evasion of the inheritance tax. Clearly there were other quarters besides the Junkers to whom the Reichstag exposure was unpalatable. Ironically enough one of the first acts of the combine under the "anti-corruptionist" Hitler was to reclaim the documents laid before the Reichstag committee in connection with the scandal.

Much has happened since the Unification Bill of April 2 established the Nazi-Nationalist alliance in power for four years. Much that has happened has been unpopular with the landowners. There have been forced levies of cattle and food by local Nazi units, in addition to the usual "voluntary" contributions to party funds. Unemployed are thrust upon large and small estates alike and must be fed and housed whether or not there is work for them to do. The Nationalist party has been dissolved; the Stahlhelm, which in 1932 von Papen threw into politics as a "Junker army" against the Brown Shirts, has been merged into the S. A. (Storm Troops). Hugenberg has been dismissed from the Cabinet.

Nevertheless, the big estates remained intact. Darré, the Nazi Minister of Agriculture and originator of the party's land program, had publicly eaten his words. He had announced that "Nazi land settlement would have nothing in common with the Marxist methods of proletarianizing the country population," and in July he definitely declared that the great estates would not be touched. The *Erbhofrecht*, or Peasants' Corporation, which came into force on June 12, did not concern the Junkers directly. Indirectly, however, it seemed to show the writing on the wall. Germany was to be a land of smallholders; the official commentary declared that *Bauer* (peasant) was to be a "new title of nobility," and this was followed by further regulations concerning the use of titles which would have been unthinkable a few months earlier.

The new law, loosely phrased, seemed partly designed to create an impetus which would not long tolerate even the secret subsidizing of the large estates. It was an ingenious scheme for combining two pet ideas of the Nazis, that of furthering autarchy, which eventually would not be healthy for industry, and that of the "de-commercialization" of agriculture.

Happily for the Junkers, this law has aroused the bitter antagonism of the peasants, who do not approve of being bound to the soil, with prices fixed by the authorities in Berlin. The rigid principle of primogeniture, which is an integral part of the scheme, is even more unpopular. The rule of all post-war changes of system is applying also to Germany; in their turn the Nazis are finding that peasant discontent is easier to foment than to satisfy.

It is in these circumstances that the Junkers judge their time for reasserting themselves to have come. To the outer world the fiction of a

united Germany is incessantly proclaimed. The Junkers and industrialists know better. They also know, however, that they themselves are no counter-attraction even for the disillusioned. Their solution is simple—back to the monarchy. Though it is doomed to failure, the moment chosen for the mention of it is inconvenient for the Nazis. If Primate Müller and his German Christians are supported by the Nazi State, the majority of church supporters are likely to be sympathetic. For the old régime, in industry and on the land, the revolution would be stayed at just the right spot; there would be subsidies again, but no more "socialism." The nationalist spirit would have been roused as never before, but its direction restored to the hereditary ruling class. And for many of the proletariat, as for some of the middle class, a monarchy after a terror would seem a blessing, for of necessity it would now have to be more lenient, if not more liberal, and it would not be in danger of going too far Left.

Of the Nazi hierarchy, however, Goering, the Premier of Prussia, would be almost alone to welcome it. Goering always had monarchical leanings; today both his relationship with the industrialists and his growing insecurity among his Nazi colleagues tend to increase his sympathy for the change. By so much the more do the "Socialist" Nazis become vehement in denunciation. "All over the land the reactionaries are stretching themselves," says Goebbels; "let them beware."

The "Second Revolution" was halted by Hitler at the beginning of a dangerous Winter. It is about to start again. Its predestined victims are Schacht and Krosigk, guardians of "orthodox finance"; Kurt Schmitt, appointee of big business in the Ministry of Economics; a host of non-Nazi officials throughout the upper ranks of the civil service who have remained till the present on account of their experience. And with these will go the Junkers and their big estates. With the coming of Spring Point 17 of the "unalterable" program is due for revival: "We demand land reform adapted to our national needs, the enactment of a law for the uncompensated expropriation of land for public purposes, the elimination of land interests and the prevention of land speculation."

When that occurs one hope alone will remain for the Junkers. That hope is war, in which their services as officers still remain indispensable. The Junkers have war in their blood and their egotism is all-consuming. Not for nothing are the fortunes of Japan followed with such attention and such sympathy in the new Germany; Japan also came late to imperialism and is unsatisfied. For the Junkers especially Japan has become the centre of urgent interest, since the Junkers alone cannot make war today. For that they would need outside assistance and some discontent at home. That discontent in certain circumstances could well be focused on Point 1 of the Nazi Program, which reads: "We demand the inclusion of all Germans in a Great Germany on the ground of the right of self-determination."

Fascism Lures Japan

By BUNJI OMURA

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CONDITIONS in Japan change rapidly, and today's diagnosis may not apply tomorrow. Yet a dispassionate view of the political situation in the Island Empire seems to indicate that the forces which make for a highly nationalistic, non-parliamentary government able to act quickly—a Fascist government, in other words—are rapidly consolidating their strength. National Socialism of the German and Italian brands has made a great appeal to certain elements within the country, first gaining wide attention, perhaps in the Summer of 1931, when Katsumaro Akamatsu, chief secretary of the Shakai Minshuto (Social Democratic party), declared his conversion to Fascist doctrine. A year later he organized a National Socialist party, which has had a phenomenal growth in both urban and rural districts.

The aggressive military group which has controlled Japan for the past few years, moreover, is essentially Fascist in spirit, since it is desirous of stamping out all opposition in order to achieve its bold ends. Whether the recent resignation of Sadao Araki, dynamic Minister of W r, foreshadows a weakening of the army's grip is impossible to say at this time. But even were this the case, the unrest among the masses of the people is such that a movement toward reorganization of the bases of Japanese political life would continue to haunt those few who still believe in democracy or that other small group which had hoped for a revolution from the Left.

The common man of Japan has become Fascist-minded for a variety of reasons. For some time he was content to remain an economic and political nonentity, but more recently he came to feel his strength and to realize that the rugged individualism which permeates most of the civilized world has made him but a pawn in the capitalistic chess game. On May 15, 1932, Premier Takeshi Inukai was assassinated and public buildings were bombed by a band of young military men and farmers. The incident was more than an isolated political act, and marked the first attempt of disgruntled elements to obtain control. If another such attempt is made, its success will depend largely upon the interim development of certain factors which were the causes of the outrages in May, 1932. These are the economic plight of the farmer, industrial unemployment, the failure of the franchise, the maldistribution of wealth, and military participation in politics.

The farmer's basis of complaint is easily understood. About one in every three families in Japan is engaged solely in farming, and the arable land for the support of an agricultural population of from 25,000,000 to 30,000,000 is only 14,500,000 acres. Naturally, the individual income is very small, and of this pittance the farmer pays to the government 31.36 per cent

in taxes, while the manufacturer and merchant pay only 13.52 per cent. What is more, rice, the principal agricultural product of Japan, sold in 1933 at 23.30 yen per koku (a koku is approximately 5 bushels), while the cost of production was about 25.60 yen. In addition, nearly 70 per cent of the farmers are tenant-farmers, and their high rentals have led to increasing disputes with landlords—rising in number from 1,000 cases in 1921 to 2,756 in 1932.

Be the harvests poor or abundant, the farmer's income is meagre. If the main crops—rice and cocoons—are small, the high price does not benefit him; if they are abundant, he is at the mercy of a ridiculously low return. In 1930 there was a record rice harvest of 66,876,000 koku, or an increase of 13 per cent over the average harvest for the preceding five years, but the decline in value was more than 40 per cent because of the slump in rice prices. The cocoon crop in that year, as well, came to the unprecedented amount of 106,463,516 kamme (1 kamme is 8.26 pounds), or an increase of 16 per cent over the average yearly production, but the producers' receipts, because of a 50 per cent fall in cocoon prices, dropped to half of those for 1929. The result was a "rich harvest famine" for the farmers in 1930. In 1931 the harvest of rice and cocoons was so poor that the farmer's income from these two chief crops declined further than in any preceding year. And estimates for 1933 foreshadowed a rich crop but poor returns because of low prices.

In consequence, Japanese farmers are deeply in debt. In June, 1932, the government rated the farm debt at 6,000,000,000 yen (about $3,000,000,000 at par), and that of small merchants and industrialists at 2,000,000,000 yen. Nearly two years ago, therefore, the debt of the masses stood at 8,000,000,000 yen—and it has certainly increased greatly in the meantime, for the rate of interest on bank loans in Japan in recent years has never been below 9.6 per cent and is often as high as 12 per cent. The enormous burden imposed by these obligations will be understood when it is realized that Japan's national debt on March 31, 1931, was only 5,959,000,000 yen, and that even after an extraordinary outlay for the Manchurian expeditions it stands in 1933-34 at only the 8,000,000,000 mark.

The farmer's problem cannot be settled until the agricultural debt is liquidated, and the debt cannot be liquidated by ordinary methods without serious consequences. If the creditors, for the greater part big banking interests, should insist on foreclosing mortgaged properties, there would be a repetition of the deeds of the terrorists of May, 1932. One of those terrorists, an army cadet, has testified that he was moved to action because all the inhabitants of his native village had lost even their personal belongings after the creditor bank foreclosed, and that he saw direct rebellion as the only justifiable solution of the problem.

The Japanese Government has not been entirely indifferent to the situation. When the coalition Cabinet headed by Viscount Saito came into power after Premier Inukai's assassination, the Diet was convoked twice in a special session during the Summer of 1932, and the second meeting was devoted solely to farm relief legislation. Laws were enacted by which the sum of 1,600,000,000 yen was made available for distribution among the farmers in the shape of direct grants, public works, loans and debt adjustments. Other administrations had essayed to facilitate agricultural management

and to settle disputes amicably by enacting the Tenancy Law and the Tenancy Arbitration Law. The Rice Control Law had been passed for the purpose of fixing the price of that commodity through the regulation of supply and demand. In addition, other measures had granted subsidies for arable land adjustment, advanced loans at low rates of interest, expanded the agricultural administrative organization and, finally, set up the Department of Agriculture and Forestry as an independent unit to aid the tiller of the soil.

Nevertheless, despite the cooperation of the farmer, these remedies had proved inadequate, and the direct grant of 1932 was found necessary. With later turns of events, however, even this subsidy has been curtailed—on the pretext of the pressing necessity for expenditure on national defense. The military group in the government demands an ever-increasing share of the nation's funds (29 per cent in 1925, 45 per cent in 1934), and the farmer finds himself thereby deprived of his recently won recognition.

The wage-earner, as well as the farmer, has been a victim of depressed business conditions. A census taken in 1925 showed 105,612 day laborers, industrial employes and white-collar workers unemployed in twenty-four Japanese industrial centres. By 1930 the figure had reached 350,372; in 1931 it was 387,460; in 1932, well over 500,000. These figures are not altogether reliable, and the Institute of Labor Research insists that the number of unemployed has been as high as 1,500,000. In addition, it is estimated that there are about 300,000 farm hands in need of jobs, and most of those who have benefited by farm relief measures will be left uncared for at the end of this fiscal year. The army leaders contend that military expenditures will aid employment, but actually such spending affects but a small proportion of the working population.

Thus Japan contains large bodies of disaffected citizens, and these have little or no chance to influence their lot by constitutional means. The right to vote, hailed as a great national blessing, has proved disappointing. Manhood suffrage was put into practice in 1928, and when eight men were sent to the Imperial Diet to represent the popular will the relatively disorganized masses rejoiced at their recognition. But suppressive measures soon put an end to the "golden age" of proletarian political expression, and in the years since 1928 the masses have lost ground once more. In 1930 the Social Democratic and Farmer-Labor parties had only five seats in the national legislature; at present they have but four. The two great parties, the Seiyukai and the Minseito, together control 415 of the 458 seats in the present Diet, and these two parties represent the monster Mitsui and Mitsubishi interests, respectively.

How futile so-called constitutional means must be under the present economic system can be better seen from a brief survey of the distribution of wealth. Economic power is concentrated in the hands of a few. Among the 67,000,000 people of Japan less than a dozen men dominate the ever-growing material possessions of the empire. Besides the Mitsui and Mitsubishi houses, there are the Sumitomo, Yasuda, Asano, Shibusawa, Kawasaki and Okura interests. In 1930, for instance, the aggregate holdings of these groups were 38 per cent of the deposits in the commercial banks, 73 per cent of the trust properties, and 26 per cent of the liability reserves of insurance companies. They con-

trolled also a great volume of investment in various other directions.

The largest of these financial houses is the Mitsui, which, with its capital of 1,200,000,000 yen (comprising the Mitsui Bank, the Mitsui Trust, the Mitsui Life Assurance, the Mitsui Bussan, the Mitsui Mining and the Toshin Warehouse companies) is the economic colossus of the country. In addition to these, there are more than 130 other companies under complete control of the same interests, with a total authorized capital of 1,240,000,000 yen. The Mitsui Bussan, an import-export concern and the largest of the units, handles about 30 per cent of Japan's entire foreign trade.

From the Mitsui and similar aggregations, obviously, the Japanese farmers and workers expect little help. The other dominant force in the government, the military, however, has at times been a source of assistance. This quasi-alliance of military and agricultural interests is not surprising, for more than 70 per cent of the army recruits are the sons and brothers of farmers. Furthermore, a large majority of the ranking officers are either from the same class or from the lower strata of the urban population. They are not only in sympathy with the agriculturists but also nurse a grievance against the great industrial interests and their political representatives. It is for this reason that ex-Minister of War Araki had become a popular hero. His support of farm relief measures, even though these measures were partially withdrawn in 1933 at the time when great sums were needed for financing the Manchurian warfare, had identified military aims with those of the common man. Araki, moreover, had cooperated closely with Fumio Goto, Minister of Agriculture and Forestry.

Nor is this affiliation between the army and the people of recent date. For many years there had been a breach between the expansionist military group and certain Minseito leaders who were able to effect a program of retrenchment and conservatism in government expenditures which strengthened the position of the vested interests. Only in September, 1931, when the crisis in Manchuria forced the issue, could Araki and his associates successfully denounce the government and party politicians for their timid attitude toward China. Demanding an end to the "selfish" and "corrupt" dealings of the capitalistic elements in the government, the army asked a single-party rule under the direct control of the Emperor. At this time Araki also championed the cause of the farmer, and prophesied the extinction of this basic industry if relief were not immediately granted. Though the Japanese were unaccustomed to the participation of military men in general politics, the farmer and the industrial worker began to feel that the army alone could save them from the hands of the capitalists and their henchmen.

Araki's views were approved by some party politicians, and in the Winter of 1931 the Minseito Cabinet under the Premiership of Wakatsuki was forced to resign. A new government headed by Takeshi Inukai, with Araki as Minister of War, was formed; yet conditions did not improve and the May, 1932, assassinations followed. The leaders of Seiyukai leanings had not been able to effect a change, and the violent methods of direct action were resorted to.

Thus constitutional means are apparently unable to effect the desired improvement in the lot of the Japanese people. The Manchurian struggle produced a crisis which seemed to promise extended reform at home and

put the army in power, but the crisis was of too short duration and no fundamental changes were brought about. A revolutionary movement from the Left is highly improbable, for no efforts have been spared to eradicate all traces of communism. According to authentic sources, 27,500 persons suspected of radical inclinations have been arrested in the five years between 1928 and 1933, and 2,500, including Dr. Hajime Kawakami, leader of Japanese communism, have been convicted and sentenced.

Industrial workers have been organizing—in the decade 1921-31 the number of labor unions grew from 30 to 710—and strikes, almost unknown ten years ago, numbered over 2,000 in 1932. But the factions which had been inclined to the Second or the Third International have been much shaken by the nationalistic activity of Soviet Russia herself, and one by one have swerved away from the Comintern. Even the extreme Zenkoku Rono Taishuto (Farmer-Labor party) has deserted the ranks of the internationalists.

Fascism seems to be the answer. There have sprung up within the last few years numerous organizations intended to bring Japan's citizens into closer contact in order to promote national unity. One of them is the Kokuhon Sha, headed by Viscount Hiranuma, vice president of the Privy Council. It includes General Araki; K. Suzuki, president of the Seiyukai party, and Koki Hirota, Foreign Minister, among its members. The pressure from such groups and from the dissatisfied farmers and workers is a mighty one; they want a "leader," a national unity that will be disturbed neither by a Diet nor by political parties but directed toward security for all rather than exploitation by a few. Moreover, the dismal possibilities of war are not overlooked in the Island Empire, and the movement for achieving national security under the nonpartisan rule of the Emperor is likely to proceed with irresistible force. Safety from without and prosperity for the common man at home are promises impressive enough to lure the Japanese citizen to support a Fascist dictatorship. If such support is actually forthcoming, it will herald the beginning of a new epoch in Japanese political and social life.

The Blight on Holding Companies

By JOHN W. HESTER

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HOLDING companies, like governments, must be administered by men, and when they fall into the hands of racketeers instead of men of honesty and integrity they then become instruments of ruin. The public is concerned far more with preventing the abuses which have attended the development of the holding company than with its destruction, for there is a legitimate field in which the holding company may operate; to confine it to that field under proper control should be the objective of public policy.

Recent experience, however, makes it difficult to remember the good side of holding companies. About three years ago Martin J. Insull debated with James C. Bonbright, Professor of Finance in Columbia University, in the *Public Utilities Fortnightly* on the question of regulation for public utility holding companies. Mr. Insull took the negative, Professor Bonbright the affirmative. But today Martin J. Insull and his brother Samuel are fugitives from justice and the unregulated Insull utility empire is in liquidation. Moreover, many of Chicago's financial institutions as well as thousands of investors have been ruined because public utility and investment companies were unregulated.

Chicago's banking institutions and its investing public are not without sympathetic and kindred sufferers in other sections of America where unregulated and unsupervised holding utility companies and utility investment trusts have been active. Cleveland had its brother wonders, O. P. and M. J. Van Sweringen, who corralled seven major railroads into one giant system with an out-of-pocket investment of only from .2 to 1.7 per cent of the total capital involved—a credit and capital pyramid made possible by the device of the holding company. Result: Cleveland's principal banks are in liquidation, its municipal credit crippled, if not permanently damaged, and its industrial and residential development warped and twisted out of line with the natural and normal. Yet its two distinctions remain, the Van Sweringen brothers and the Terminal City—the last a monument to building-madness.

And Detroit! Well, it succumbed to the holding-company idea also, and scrambled all its banks and most of those of the State of Michigan into two giant bank-holding corporations. The head of one was a "glad-hand" bond salesman from Chicago by the name of Robert O. Lord, who, according to a national bank examiner's report inserted in the record of the Senate Banking and Currency Committee hearing on Dec. 22, 1933, was of the "promotion type" and "was not a banker, and never has been and never will be." Yet he was head of one of the two Michigan bank giants—together they controlled 223 Michigan banks—with resources under his control amounting to more than $500,-

000,000. Before his bank got into trouble, he was the outstanding group-banking advocate of America. Remember, it was his bank's troubles, along with the similar difficulties of its competitor, that a year ago precipitated the Michigan bank holiday which led to the national bank holiday. Thus the suspension of the nation's banking facilities at the beginning of the present national administration had its inception in the collapse of an experiment with bank-holding companies.

It would be grossly unfair to attribute to the holding company alone the troubles that have arisen in Chicago, Cleveland and Detroit. True, the courts have recently characterized the Insull companies as "glorified gambling institutions." But the fact that Martin J. and Samuel Insull have been shown to be financial adventurers who used their companies for their own aggrandizement is no reason for the American Telephone and Telegraph Company, a multibillion dollar institution, being subjected to censure because it has some of the attributes of a holding company; or that the Pennsylvania Railroad Company should be condemned as partly a holding company because of shoe-string financing elsewhere by the Van Sweringen brothers. Nor should the attack be directed against the adequately financed Commonwealth and Southern Corporation of New York, a public utility holding company that has canceled its objectionable service contracts with its subsidiary companies and made such service available to operating companies upon a cost-plus basis.

Consequently, it is a matter of eliminating, either by the weight of public opinion or through legislation, the abuses to which the holding company is subject. At present there is no way to prevent, for all practical purposes, the complete separation of control from the actual ownership of a public utility. Such separation cannot possibly be conducive to the lasting good of the public or the utility, and no amount of legal or economic sophistry can make it so.

For instance, suppose we have an operating company or companies whose outstanding bonds, preferred and common stock total $150,000,000 divided into three equal amounts. The common stock carries the voting rights and hence the control. Some scheming bankers and their associates desire to gain control of these companies. All they have to do is to buy 51 per cent of the common stock, or invest a little more than $25,000,000. As they do not want to invest that much, they form a holding company and issue stock and bonds for the amount of the original investment in the form of $10,000,000 bonds, $10,000,000 preferred and $5,000,000 common stock. Of the last they retain 51 per cent, or $2,500,000, which gives them control. But they desire to have even less in the enterprise, so they form another holding company and again issue bonds and stocks—$1,000,000 in bonds, $1,000,000 in preferred and $500,000 in common stock. Of the common they retain 51 per cent and thus by investing just over $250,000 control, by this method of pyramiding, properties valued at $150,000,000. Can it be said that such a manoeuvre benefits the properties or the public? To ask that question is to answer it.

This is no fictitious or fanciful situation. Hearings before the Federal Trades Commission have disclosed that in some instances as many as nine companies exist between the controlling company and the operating company. One company, for example, in 1930 had outstanding stock with a

book value of only $8,000,000, yet completely dominates the Associated Gas and Electric Company system, whose controlled and subsidiary companies are worth $1,200,000,000. It is not surprising that H. C. Hobson, the vice president of this holding company, testified before a New York State Commission on Jan. 15, 1930, that he could not recall in what companies he was a director or officer or even the nature of the business conducted by some of his companies.

Yet the problem is not one of portraying holding-company monstrosities; rather is it a question of what, if anything, may be done about them? Manifestly, nothing is to be done outside the industries and businesses "affected with a public interest," and in that area we shall limit our discussion to the public utilities—gas and electricity. Had it not been for the legal fiction that the company that owns or controls the stock interest in a railroad or utility is not itself engaged in the business of a common carrier or a public utility and therefore "not affected with a public interest," it is doubtful if holding companies would have developed to the extent that they have during the past two decades. The desire to escape State and Federal regulation has furnished the principal incentive for the use of this corporate device. To defeat this purpose the legal fiction must be destroyed, for it is both absurd and illogical.

It is just as logical to contend that a watershed, however much polluted, will supply a stream of pure water as to contend that an operating company is not affected by the power that actually controls it, or that the power thus in control is not "affected with a public interest." There is no such thing as the insulation of "public interest" at the point of contact between the operating company and its owner. On the contrary, such interest necessarily attaches to and includes the controlling company, be it immediate or some nine companies removed.

After decades of wasteful expenditures by competing carriers and utilities, with resulting inadequate service, the general public has admitted that the common carrier and the utility are natural monopolies, but subject to regulation and entitled to only a fair return on their investment. The trouble is, and has been, that the common carrier and public utility owners want to separate the monopoly privilege from its counterparts—regulation and a fair return on investment. This separation the public will not permit, and the sooner these owners recognize this fact the better for all concerned; otherwise, there is the alternative of public ownership.

The unwillingness of utility owners to accept monopoly privileges with regulation and a small, but sure, return has been the cause of a bitter struggle for two decades. To this attitude of the utility owner can be attributed the persistent and finally successful fight that the old tribune of the people, Senator George W. Norris of Nebraska, has made against private ownership of Muscle Shoals. On the part of the utility owner the fight has been based upon a most unusual argument. Formerly the privately owned and operated utilities contended that government operation was wasteful and expensive in comparison with the privately owned and operated utility. But the private utilities opposed government operation at Muscle Shoals despite the fact that it was generally understood from the beginning that operation would be undertaken very largely, if not entirely, for the purpose of establishing a norm or standard by which to de-

termine the actual cost of electric service to the various classes of consumers. Such opposition necessarily raises the question of good faith on the part of the private utility. Does it fear to have the test made and the results registered?

Now the battle is in progress along an extended front—in the field of actual competitive operation and before the commissions and the courts. President Roosevelt has created the Tennessee Valley Authority to determine costs in their various forms, and the Federal Power Commission, under the chairmanship of Frank R. McNinch, is putting "power" into the Federal Water Power Act of 1920. This act provides for the licensing of power projects on navigable waters and public lands; and when a license is exercised by the construction of a project, it then becomes the duty of the commission to determine the "actual legitimate original cost" of such a project. The purpose of the act is three-fold: To improve navigation under the interstate and foreign commerce clause of the Constitution; to form a basis for the determination of a fair return upon the investment involved; and to know in advance what will be the cost of exercising the recapture option at the end of the license period of fifty years.

The act was first interpreted and applied in the case of the Mitchell Dam project on the Coosa River in Alabama, built under a license issued in June, 1921. The disputed items of cost came up for hearing before the Federal Power Commission in 1932. The Alabama Power Company, the licensee, asked to be allowed $3,500,000 for project lands, water rights and franchises that originally cost less than $100,000. Furthermore, it sought permission to pay a service fee of $187,540.15 to the Dixie Construction Company, a subsidiary of the licensee. The commission disallowed this fee entirely and allowed only $75,135.09 for the original cost of the project: lands, water rights and franchises.

It was disclosed that the old Alabama Power Company, before the era of mergers, paid the sum allowed for the project lands, water rights and franchises, but that a new company issued 70,000 shares of its stock to the old company in exchange for only 50 shares of the same par value of $100. In speaking of this transaction Chairman McNinch, then a minority member, said in a concurring opinion:

"That the directors of the several merging corporations passed resolutions declaring the assets of the merging corporations to be worth the greatly enhanced sum that the merger corporation was paying is not convincing when we know that there was no opportunity for independent dealing and that such consent to and approval of this inflated value was only *pro forma*. In such circumstances it is our duty to look at this transaction with a scrutinizing eye and also to 'pierce the veil' to discover the dictator or parent to whose imperial will its child is necessarily subservient. It is likewise my opinion that officers and directors of public utilities are trustees not only for the stockholders but also for the public affected by their official action, and that they fail to discharge this duty if they permit or encourage trafficking in public-utility properties to the undue advantage of the stockholders and against the legitimate economic interest of the consumer."

And "trafficking in public-utility properties" is emphatically condemned by the commission as it is now constituted. In an opinion of the commission written by Chairman McNinch in October, 1933, the clear-cut, defi-

nite doctrine was set forth that there would be no allowance of profits to a service company when it and the operating company were under the same control and ownership. This declaration was made when passing upon the disputed claims of the Louisville Hydro-Electric Company, licensee, for allowance of a service charge of 7½ per cent to the Byllesby Engineering and Management Corporation, the service company of the system of which the licensee was a part. This claim amounted to $481,533.48 on a project costing just a little over $7,000,000, and was in addition to the actual cost of construction and for a service the cost of which was not disclosed to the commission and was therefore denied.

In this set-up involving the licensee, the Louisville Hydro-Electric Company; its owner, the Standard Gas and Electric Company; the latter's owner, the H. M. Byllesby Company—the top owning and controlling company of the system—and the Byllesby Engineering and Management Corporation, the service company for the system, there is a problem in inter and intra corporate relationship that would baffle the best corporate analyst. Fortunately, it was admitted that the Byllesby Engineering and Management Corporation was the service company for the Standard Gas and Electric Company system and that it had with all the operating companies of the system, with the exception of the licensee, contracts running over a period of twenty-one years by which it exacted for engineering and management service a total fee of 9¼ per cent of the gross receipts of the companies in the system. A similar contract, but for only ten years, existed with the licensee.

At the hearing it was further shown that this service feature—engineering and management—of the Byllesby Corporation in five years from 1922 to 1927 amounted to $29,064,187.43 gross, but at a cost of only $15,888,487.90, leaving a clear profit of $13,175,699.53. This sum represents the profits to the service department, for that is what it was, of the top holding company of the Standard Gas and Electric Company system, a system that in 1930 had 1,614,414 customers in twenty States with assets amounting to the staggering sum of $1,200,000,000.

The vice of the whole scheme appeared when it was shown that the Byllesby Engineering and Management Corporation's stock of 100,000 shares, valued at $1,000,000, did not represent the investment of a single penny but merely the capitalization of the service contracts with the operating companies of the system, and that the stock was entirely held by the Standard Gas and Electric Company, the underlying holding company of the system. Here we have vividly portrayed the double-edged qualities of the holding company through its service company—cutting away dividends that should go to the real investors in the utility issues as well as cutting away reductions in cost of service to the consuming public. It was to meet just such unconscionable conduct that the commission issued in this case the following unequivocal declaration:

"When there is common control of the service company and the operating company, the two being virtual departments of an integrated system, with power implicit therein arbitrarily to dictate contracts and fix charges for services, the commission will disregard the contract and demand evidence of the cost to the service company of the services rendered, for under the Federal Water Power Act the allowable cost to the licensee for *construction* and *other* service can

be no more than the cost of such service to the service company under common control with the licensee."

Thus it appears that the commission, under the McNinch chairmanship, is actually putting "power" into the Power Act. But the area of regulation and control by the commission is limited to navigable waters and public lands, the use of which requires a preliminary permit and final license —an unfortunate limitation for the public. Especially is this true when it is remembered that the twenty-odd billions of dollars invested in utilities and the millions of customers now being served represent only a beginning of gas and electric development in the United States. Our land frontiers have been occupied, but the physical-need-and-convenience frontiers to which gas and electrical service may be extended have not even been sketched by the most sanguine in the utility field. To one who can visualize its possibilities, the need for supervision and regulation by a capable Federal commission is imperative if uniformly fair treatment of the utilities, the investing public and the consumer is to be assured. At present the commission, by control of the operation project, can only make this mermaid of a system present to the public the face of a fair maiden, while its body and tail remain the body and tail of a fish.

It is fallacious to argue that it does not matter who owns the stock interests of the utility companies or who owns the top holding companies of the operating companies so long as the rates that may be charged for the service rendered the public are subject to commission control, either State or Federal. In the first place, the utilities themselves do not benefit by disfranchising the investors. This disfranchisement is achieved by one of two devices: First, by securing legal control in the sense that the holding company has the power to elect all or a majority of the board of directors; second, by a factual control resulting from a widespread diffusion of stock ownership.

Legal control is effected in any one of several ways: (1) By issuing large quantities of bonds and debentures by both the holding and operating companies, thereby giving control to the owners of the stock issues; (2) by issuing preferred stocks, either with no voting power at all, or with the right to vote contingent upon the passing of certain dividend periods; (3) by issuing several classes of common stocks or participating stocks, with only one class possessing the voting right; (4) by issuing a special class of cheap stock heavily loaded with voting rights so as to give its possessors actual control; (5) by creating voting trusts, by which the voting stock is placed in the hands of a committee for a definite period; (6) by issuing to the controlling interests large quantities of stock-purchase warrants by which the voting stock may be acquired as the needs of the controlling interests warrant; and (7) by including in the holding company charter a provision by which the shareholders waive the right to buy any new stock, thereby giving the controlling interests the power to protect themselves by issuing new stock to themselves as the need arises.

Factual control is effected by a great diffusion of the common stock, while the controlling interests own a substantial minority interest, yet are secure because of the difficulty involved in the pooling of interests on the part of the majority owners.

The foregoing constitute generally the devices by which control of the operating companies is acquired. The profits to the controlling top com-

panies consist not only of the dividends on stocks held by the controlling companies but of profits from subsidiary operating companies obtained through service contracts, of which the Byllesby Engineering and Management Corporation is an example. At this point we see the inherent evils of the holding company method, for here it is that both the investor and the consumer are bled white, the investor of his legitimate returns and the consumer of justified reductions in the cost of service.

But other vices inhere in the holding company system, particularly the tendency to overcapitalization and mismanagement on the part of the controlling company and its definite, though subtle and indirect, influence upon the bodies fixing rates to the consumer. The attempt of the Alabama Power Company to capitalize properties that cost its subsidiary only $76,000 at $3,500,000 is a recent example of the tendency to overcapitalize.

The classic historical examples of such overcapitalization, or watering of stock, are the Northern Securities Company, whereby two railway systems costing only $278,000,000 were acquired and capitalized by the holding company at $400,000,000, thereby bringing the promoters of the merger a net profit of $122,000,000, with an out-of-pocket expenditure of only $30,000 in attorneys' and filing fees; and the United States Steel Company, a pure holding company which paid $1,100,000,000 in bonds, debentures and preferred stock for the properties bought, the promoters of the scheme thereafter issuing to themselves 1,000,000 shares of common stock which was marketed at $50 per share, whereby they picked up the neat sum of $50,000,000. Upon this common stock handsome dividends have now been paid for thirty-two years. One question that arises is what might today be the result if these dividends had been retained as emergency reserves. Would the average employe of the company be a charge upon charity or a beneficiary of the government under the CWA?

As long as human nature is human nature, there is no use in contending that regulatory commissions are not susceptible to the appeals, informal and inarticulate though they be, of investors in the bonds and stocks of a utility or carrier mismanaged by a holding company. A concrete affirmative answer to this argument can be found in the case of the New Haven Railroad whose financial difficulties arose from holding company mismanagement. In this instance the State Commission and even the Interstate Commerce Commission granted the carrier all possible favors in the way of rate regulations in an effort to enable it to rebuild on a sound and prosperous financial basis. It might be mentioned, in passing, that the experience of this carrier was largely responsible for the enactment of that feature of the Transportation Act requiring that railroad issues be subjected to commission control. Recent revelations in the utility field make such supervision of utility issues likewise necessary.

Nevertheless, there are encouraging and hopeful signs. Some directly interested in public utilities have sensed the danger of public ownership and operation unless management is divorced from the vicious practice of a controlling company dealing at a profit with its subsidiaries. Long ago it was made a crime for a public officer to trade with companies in which he had a financial interest. The public weal demands the same high ethical standard in the utility field, for offi-

cers and directors of the operating and controlling companies alike are trustees on the one hand for their stockholders and investors, and on the other for the consuming public.

This principle the Commonwealth and Southern Corporation of New York recognized and incorporated in dealing with its subsidiaries by cancelling service contracts and making the service available at cost, distributed over the system on a *pro rata* gross-income basis. If the rate charged proves to be in excess of the actual cost, the excess is refunded in dividends to the operating companies. In this way the operating companies, the investing public and the ultimate consumer enjoy the advantages of centralized management with its engineering, construction, purchasing, financing and legal service of a type unavailable to the small independent utility.

This action by a discerning holding company suggests the way out of the present generally indefensible control of operating companies. To the extent to which the Commonwealth and Southern has gone, its leadership deserves to be followed. But there is no reason why any holding-company pyramid should exist. Gas and electric utilities are indispensable in modern life; but they must be adequately financed, and therefore investors have to be assured a fair return on their money. The present hostility to the utilities is the result of the star-chamber, short-changing methods of those now in control of the utilities. If this ill will is to be overcome, utility operation, from the controlling company to the operating company, will have to be open for inspection. The accounting system, stock issues (whether par or non-par), management, engineering and legal service, and construction and manufacturing departments should hide nothing from the regulatory bodies. In short, only trade secrets, which the various regulatory bodies could be relied upon to protect adequately, should be concealed from the consuming and investing public.

There is a formula by which the utility problem may be satisfactorily solved, and until this formula is generally adopted, confusion, agitation and loss will continue. When those in control of the utilities realize that there are really only three factors in this gas and electric utility business—service, the investor and the consumer—the utility problem will be solved. Service should come first, and the actual investor and consumer second, but each of them ought to be accorded equally fair consideration.

The men who control the utilities do not own them any more than the present national administration owns the Federal Government. Their position is that of trusteeship, for which they should be adequately compensated, and with that they should be satisfied. This objective must be attained; otherwise, public ownership is inevitable, for the day of the Insull "glorified gambling institutions" is over.

The Spur to Soviet Farming

By THOMAS CARMEN

[An American journalist formerly on the staff of the *Moscow Daily News*, Mr. Carmen had ample opportunities to observe at first hand events in the Soviet Union.]

THE Soviet Union last year passed through one of the most critical periods in its history. At the beginning of 1933 the outlook appeared unfavorable; at the end of the year spectacular gains had been made in every field of endeavor, not least in agriculture. A year ago conditions on the Russian farms necessitated a change in government policy in order to attain the goal of socialized agriculture. This was the creation of political sections at the tractor stations and on the State farms, a move which involved the transfer of 15,000 picked Communists from various important posts.

Every one chosen for these political sections had to have a background of experience, good sense and unquestioned loyalty to the State and to the principles of collectivization. Nor was it merely members of the Communist party who were wanted on the farms—party members were already there—but men and women capable of acting as organizers and leaders and of dealing wisely with the social and economic problems that confront the peasant. Of all the advertised shortages in the Soviet Union, the greatest is that of competent leadership. Men and women who combine ability and political trustworthiness are needed on more jobs than they could possibly fill in a lifetime.

There were no radio appeals for volunteers; there were no advertisements; yet the recruits were found. The secretaries at the Central Committee offices turned to their files, and presently men and women in Moscow, in Gorki, in Rostov, received notice to appear before the Central Committee in connection with work on political sections. It was a great honor to be sought for this work, because the call indicated recognition by the leaders of the nation. Yet in many cases it meant great personal hardship and sacrifice for the individuals involved. No excuses were accepted by the Central Committee, and once suitable members for political sections had been found nothing short of a miracle could prevent appointment, that is, if the person in question still cared to retain party membership.

The political "sectionaires" were recruited from every walk of Soviet life, and particularly from non-productive occupations. The Moscow Institute of Red Professors was thus stripped of half its student body. There was, for instance, Volodya Kapatov. He was born of a middle-class family and at the age of 17 threw in his lot with the Revolution during its earliest days. As secretary to a commissar of a Red Army division he fought all through the civil war and remained in the army as an educator until 1930. He then joined the Institute of Red Professors and had begun studying English before going, as he intended, to the United States to complete a study of American economics. But the call of the Central Committee ended

that. Though the assignment to head a political section in a remote part of the Ukraine took him away from his academic career, Kapatov did not flinch. He was a party member. He had taken his stand in 1917 and he had never swerved from it. The Central Committee showed wisdom when it selected him, and, judging by the widespread improvement in agricultural activity throughout the country since the political sections were created, the other leaders must have also been carefully chosen.

If the formation of political sections was the outstanding measure of the year in the party's determination to build up Russian agriculture, two other factors also came into play. By a decree of Jan. 20, 1933, a fixed tax on agricultural produce was substituted for the so-called contractual system, which at times left the peasant without grain for his own use. Less tangible but no less potent was the changed attitude of the peasants toward collectivization, which was formerly passively resisted by large sections among them. This damaged the agricultural economy as much as did the outbursts of arson and violence by the village kulaks.

Stalin, at the Congress of Collective Farm Shock Workers held in the Spring of 1933 in Moscow, divided the peasantry into three groups. Out of every 100 village households, he said, 15 belonged to the kulak, or well-to-do, categories; 45 to 50 to the middle category, and 35 to the poor. While the stories of resistance to collectivization of the kulaks must be accepted as authentic, it is also true that it would not have been so destructive if the vacillating middle group had been won over to the side of the poor, who, as a rule, stanchly supported the collectives. But in many sections of the country inadequate local leadership antagonized the middle group of peasants and drove them into a passive but stubborn resistance by which they hoped to defeat collectivization.

In the Winter of 1932-33 the peasant underwent a change of mind, and later a change of heart also. Even before the decision to create political sections had been made and the decree for a fixed tax announced, the peasantry began to realize that the government meant business, that collectivization had come to stay and that the immediate effect of sabotage would injure the farmers more than any other element in the population. They were faced with the choice either of working honestly for the collectives, regardless of all shortcomings, or of perishing. The law of self-preservation aided the proponents of collectivization and thus paved the way for a new start.

Since previous encounters with local Communists had not been very happy, the creation of political sections was presumably not considered particularly significant by the peasant masses. It did not seem to them that the infiltration of new party forces into the villages would tend to improve their lot in any way; nor could they have been certain that the new tax decree, which held out the promise of leaving them with a surplus of grain, would not be violated. Promises they had come to regard with a great deal of suspicion. They went to work with a new zeal early last Spring because of an altered psychology rather than as a direct result of the new government measures.

As the months passed by, however, the peasants became aware of attentions which hitherto had not been bestowed upon them. The members of political sections were a new type of Communist. Not only were they invested with power but they showed

both understanding of and sympathy with the collective and individual farmers in their difficulties. There also began an unprecedented flow of consumers' goods to the villages. According to data furnished by the People's Commissariat of Supply, the shipment of consumer commodities to the countryside increased by nearly 900,000,000 rubles over 1932.

Kerosene, for instance, which had never been lacking in the industrial centres, was not always available in the rural districts. But last Spring conditions were reversed. This staple, scarcely obtainable in Moscow, ceased to be a scarcity in the villages.

Something still more extraordinary occurred as the harvesting season began. In the Odessa Province local leaders had advanced a "counterplan" for grain collections; they proposed to collect more grain from the peasantry than was lawful according to the fixed-tax decree. At once those responsible were removed from their positions and some were imprisoned. Similar cases elsewhere in the Ukraine were dealt with in a like manner, for the government was anxious to demonstrate to minor leaders throughout the country and to the peasantry that it was in dead earnest about its pledge and that violations would not be regarded lightly.

It is the rôle of the political sections to see that the agricultural policies of the Communist party are adhered to. Without attempting to usurp the functions of the officials at the machine tractor stations, of the local party organization, of the village Soviets, or of the State and collective farm administrations, the political sections strive to direct the efforts of each along party lines and to correlate and coordinate their activities. They must interest themselves in everything but in a manner that will antagonize no one. Are the tractors or combines standing idle too much of the time? Are there field kitchens to serve the harvest workers? Has a frog been found in the soup? Is the nursery functioning as it should? Is Piotor Ivanovich really a kulak in disguise carrying on subversive propaganda? These are some of the questions that clamor for the time and attention of the political sectionaire.

While the underlying purpose, of course, was the transformation of the collective farm into an efficient producing unit, the chief aim was to fix responsibility and to introduce a system of awards commensurate with individual efforts. The principles of the commune were rigidly banned as premature and therefore destructive. As in industrial enterprise, merit was to receive material reward in addition to honorable distinction, a motive long recognized as essential to the success of collective farming, but not very well applied until the advent of the political section.

The size of individual earnings now depended not only on how the collective worked as a whole but on the records of the brigades and the individual members. Under this system the earnings of the collective farm member are reckoned by the number of "labor days" to his credit at the end of the season. The labor day represents an amount of work performed and should not be confused with the working day; there may be 1.5, 2.0 or 3.0 labor days in one working day, according to the tasks accomplished. The number of labor days thus earned is determined by the energy and ability of the individual peasant. Where the nature of the work does not lend itself to such regulation, as in the case of a watchman, a day's work is rated as either more or less than a labor day, calculated on the basis of

the skill or exertion required. When the crop is brought in, the tax obligations to the government paid and grain for seeding purposes set aside, the net balance in cash and in kind is divided by the total number of labor days earned by the entire collective and thus the worth of each is calculated.

The work of State and collective farms in 1933 was far from ideal; yet two things have been accomplished—an immediate and substantial increase in agricultural produce and completion of the groundwork for the continued development of collective farming. The grain crop yield thus exceeds the previous year's total by 28 per cent. Enough collective farms have mastered the art of large-scale farming to serve as models for those that are still backward. The chemical factories are turning out a great deal more fertilizer than they did a year ago, and tractor production is now about 300 daily, and still going up. Furthermore, during the first seven months of 1933, 900,000 peasant households joined the collective farms. But for various restrictions the number would have been even greater.

Collective farming has weathered the storm, but further successes depend on light as well as on heavy industry. To make the collective farmer well-to-do more than cash or grain is required. The money that he realizes as his share of the collective revenue and from the sale of surplus produce will be of little benefit unless he can make purchases with it. Today the Soviet citizen is the greatest spendthrift in the world, and the peasant, like the industrial worker, does not want to store up money for a rainy day. He wants shoes, clothing, frying pans, radios, and what not. And to the extent to which the government can provide him with these articles will he be interested in furthering and improving collectivization.

Last November a delegation from the Odessa Province visited Stalin. During a three-hour talk covering many subjects it came out that one of the delegates, Piotor Sidorovich Chernousov, and his family had earned 1,100 labor days. As the pro-rata return on his particular collective farm amounted to more than thirty-seven pounds of grain per labor day, his family had received about twenty tons of grain as well as nearly 3,000 rubles in cash. Citizen Chernousov and his fellow-delegates wanted some advice on how to spend all this wealth since light industry had so far failed to provide enough goods to buy. Stalin thereupon made the promise which was widely featured in the Soviet press—that "from now on production of consumers' commodities will be doubled and perhaps trebled." This is a promise that the Soviet Government will at all costs have to make good if the gains that have been registered in agriculture are to be held and expanded.

The Defense of Sterlingaria

By ALZADA COMSTOCK

[Miss Comstock, Professor of Economics at Mount Holyoke College, has been a frequent contributor on economic subjects to American periodicals.]

THE bewildered citizen of today's monetary world observes that in time of crisis nations forget past pride in their solid money and try to depress their own currencies in terms of others. Thus, their own manufacturers will be helped. Suppose that a Frenchman with 1,000 francs to spare in January, 1933, considered buying an American radio. With the franc at 4 cents he had only $40, for which, including customs duties, he could not get a very good radio, and so he decided not to buy one. But this last Winter, with the dollar down and the franc worth 6 cents, he had $60 and therefore could buy something better.

The British, with their long financial experience, had all this in mind when they went off gold and again when they established their exchange equalization fund. A large fund of this kind can go into the foreign exchange market like an individual, buy foreign currency, depress its own by selling it, and win the blessing of the country's exporters. If the fund converts its foreign currency into gold and sends the gold to the central bank, to the exporters' blessings are added those of bankers and financiers.

The exchange stabilization fund authorized by the gold bill recently enacted by Congress has so many superficial likenesses to the exchange account in Great Britain that the underlying differences in purpose and method are likely to be ignored. The United States, like Great Britain, is temperamentally inclined to avoid the Continental and South American varieties of foreign exchange control, with their limitation and rationing of exchange, their fixed rates and their official exchange bureaus. Both countries favor less direct methods. Beyond this point, however, the resemblance grows fainter.

Although the purposes of the British fund have never been stated as frankly as custom in the United States demands, speeches of the Chancellor of the Exchequer and of supporters of the government in Parliament make it easy to discover the shifting aims of recent foreign exchange policy. In the Spring of 1932, when the establishment of the fund was announced, British policy apparently had two goals: To hold down the value of the pound in the foreign exchange markets—a demand of British exporters and of others interested in keeping intact the net of currencies tied to sterling; and to keep permanently within the country the refugee capital which was flowing from the United States and other uneasy nations.

Seven months earlier, in September, 1931, Great Britain had left the gold standard. The immediate reasons for that step—the difficulties in obtaining repayment of German short-term loans and the exodus of capital from Great Britain—are familiar matters of depression history. Soon, however, these factors were forgotten in the effort to depress the pound for the

benefit of British trade. At the close of 1931 the sterling-dollar rate was $3.39, a depreciation of approximately one-third, which was apparently satisfactory to exporters. "As far as British trade is concerned," said Reginald McKenna, chairman of the Midland Bank, at the stockholders' annual meeting in January, 1932, "the outlook is undoubtedly brighter now that we have established our independence of the continued decline in gold prices."

Early in 1932, however, the depreciated pound and its advantages were endangered. The pound was rising. Refugee capital was pouring in from the United States, where people were frightened by the prolonged crisis and by the number of bank failures. French investors were transferring funds from New York to London. Finally, the Bank of England was obliged to sell sterling and buy foreign exchange in order to check the rise of the pound. By the beginning of April, 1932, the pound had risen to $3.80. Obviously something more drastic must be done. And so the announcement by Neville Chamberlain, Chancellor of the Exchequer, in his budget speech of April 19, 1932, of the creation of a fund to operate on the foreign exchanges came as no surprise to the initiated. "It is essential for us to hold adequate reserves of gold and foreign exchanges," he said, "in order that we may meet any sudden withdrawal of short-dated capital and check and repel these speculative movements."

Throughout the debate on the equalization fund three recurring themes were heard—the trade advantage of a well-depreciated pound, the difficulty of keeping the sterling area ("Sterlingaria," as irreverent Americans have called it) in line if the pound should rise, and the desirability of retaining in Great Britain the foreign money which was then flowing in. Sir Robert Horne proposed on April 20 a price rise which must have greatly heartened one of the current American monetary schools, although the United States has more modest world ambitions than he described. Sir Robert suggested $3.60 as the rate which would perhaps bring prices to the 1928 level. Such a price rise, he continued, "would extend to the whole area which is now trading upon sterling. * * * You would have purchases from all parts of the world within the sterling area, and accordingly you would exercise at once a wide influence over more than half the world."

Such appeals to patriotic and business sentiment made it a foregone conclusion that the fund would be approved. The bill (Clause 21 of the Finance Bill for 1932-33) contained only a few words of instruction: "The Treasury may cause any funds in the account to be invested in securities or in the purchase of gold in such manner as they think best adapted for checking undue fluctuations in the value of sterling." The government insisted on complete secrecy of operation and, despite opposition, won its point. The account began its official life on July 1, 1932, with assets of £150,000,000 obtained through an increase in the floating debt, and £25,000,000 which was transferred from the now defunct dollar-exchange fund.

Action was necessary while the finance bill was making its way through Parliament. Fortunately for the prospects of a depressed pound, the mere announcement of the proposal for an exchange fund acted as a deterrent to speculative buying of the pound against a rise. The sterling-dollar rate soon dropped below $3.80. In May and June, 1932, according to the London *Economist* of Sept. 24, 1932, the

pound-dollar rate was pegged at just under $3.70. At this time Sir E. Hilton Young, Minister of Health, speaking for the government, described the purpose of the fund to a critical House of Commons. In view of the confusion of contradictory statements which have since been made, it is well to take note of his statement on May 25, 1932: "The purpose of the fund at the present time is to prevent a sharp rise. As long as we do that and keep sterling down to its present level, the result is to draw gold out of its hoards all over the world."

These events and their explanations, as well as the later work of the fund, render puzzling some of the recent British comments on American currency policy, such as that in the "City Notes" of the London *Times* on Nov. 11, 1933: "America is the first to make currency depreciation a deliberate policy."

Little is known of the precise activities of the British exchange equalization fund between the date of its establishment on July 1, 1932, and its spectacular dollar purchases in the early months of 1933. Month by month the pound continued to fall, however, until it reached the unprecedentedly low point of $3.145 on Nov. 29. All sorts of rumors were in the air at the time. According to some—later proved to be false—the exchange fund had become bankrupt. According to others, the fund was selling the pound short and making money hand over fist. Still a third suggested that the decline in the pound was engineered to convince the United States that the war-debt payment, due in December, 1932, was practically impossible, although at the same time larger sums were being quietly transferred abroad to pay off the privately held 5 per cent war loan which was converted or (optionally) paid in that year.

The exercise of the exchange equalization fund in these first months was only a preliminary workout. Its real achievements were just around the corner. As soon as the December, 1932, payment to the United States was over, the fund began a persistent campaign to hold down sterling by selling pounds for dollars, demanding gold for the dollars, and selling the gold to the Bank of England. By the middle of January, 1933, a third of the gold paid to the United States in December had returned to London. By the middle of April three times as much foreign gold as had been paid to the United States in December had been sent to the vaults of the Bank of England. Further sums lay earmarked for Great Britain at the Federal Reserve Bank of New York, and still more foreign exchange remained unredeemed in the possession of the exchange equalization fund. Then, suddenly, the American gold embargo was declared. The wheels of this particular piece of foreign exchange machinery stopped turning. The gold drain was stopped.

This most spectacular of recent gold movements was achieved at a time when the British exchange equalization fund and the Bank of England had every advantage. Refugee capital from the United States, of which so much had been heard in the House of Commons in the preceding Spring, was now leaving the United States for London with even greater rapidity. The banking situation in the United States was approaching the catastrophe of March, 1933, and there was no sign of improvement in American economic or financial affairs. The British exchange fund could easily find all the dollar exchange it wished to buy. It could keep on buying as long as its resources held out; and they, being managed with consum-

mate skill, were holding out like the widow's cruse. The dollar exchange purchased could be converted into gold as long as the United States permitted gold to be exported. Here is to be found, of course, a practical and immediate reason for the insistence of British financial circles that it was best for the world that the United States remain on the gold standard.

The way in which the British exchange equalization fund operates against a gold country is as follows: The fund buys foreign exchange through a British bank. In order to supply itself with money for the purpose, it usually sells to the Bank of England some of the treasury bills with which it has been supplied by a generous government. The fund then pays the commercial bank with a check on the Bank of England.

Now that the foreign exchange is in its possession, the fund can either hold it, sell it or convert it into gold. The wall of secrecy which surrounds the fund prevents the public from knowing the methods used. It is believed, however, that the fund has made haste to convert most of its foreign exchange into gold and to sell the gold to the Bank of England. There is always the danger that any one of the few remaining gold countries may leave the gold standard, in which case foreign exchange is merely foreign exchange, rather than a potential gold reserve for the central bank. Thus the double purpose of depressing sterling on the foreign exchanges and the improvement of the Bank of England's gold reserve is accomplished.

At this point there appears one of the major mysteries of the ever-mysterious exchange equalization fund. The Bank of England, by the terms of the Finance Act of 1932, buys gold at par. The exchange fund, which has had to pay for the metal in depreciated sterling at a considerably higher figure, loses on each transaction; and the greater its success in depreciating sterling on the foreign exchange, the more it loses. Yet somehow, nobody knows how, it keeps going. To be sure, the fund was hurriedly granted £200,000,000 more as soon as the United States went off the gold standard. Yet it is very puzzling that when the Chancellor of the Exchequer was pestered on this matter by inquisitive members of the House of Commons in the Spring of 1933 he insisted that "there has not been any loss on the account at all" and "the balance is on the right side."

If the fund has not lost money (and later information concerning its use of grants through the floating debt indicates that it is very far from destitution) we can come to only one conclusion—that the fund is a skillful operator on the foreign exchanges. The London *Economist* apparently drew that inference, for in its banking supplement of May 13, 1933, it remarked that the fund "was always liable to turn around without warning, and its operations were deliberately made incalculable from one minute to the next."

The year 1933 continued to be crowded with monetary crises, even after the American gold embargo stopped the British fund's efforts to raise the value of the dollar on the exchanges and to draw gold from New York. It was still possible to depress the pound and raise the dollar by foreign exchange purchases, but the heart was gone out of the adventure. Furthermore, the then modest resources of the fund were rather small for such operations. So the fund apparently desisted at once. In the two days after the suspension of the gold standard by the United States ster-

ling rose from $3.49 to $3.85. The increase in the gold supply of the Bank of England, which had been about £20,000,000 a month, slowed down almost to a standstill. The "highest gold reserve in the history of the Bank of England" — £187,000,000 in April, 1933—was to rise by only about £5,000,000 more during the rest of the year.

British financial experts, whether public or private, are not easily disheartened. On May 4, 1933, the Chancellor of the Exchequer asked the House of Commons for £200,000,000 more for the exchange fund. The amount was granted without serious objection. It was at this time that a divergence appeared between the official definition and the popular understanding of the purpose of the fund. In the discussion on May 4, and again and again since, the government has maintained that the fund is intended merely to "iron out minor fluctuations in the exchange value of sterling." Furthermore, the Chancellor of the Exchequer insisted, in asking for the additional grant, that it had "nothing whatever to do with the circumstance that America had gone off gold." Critics and the financial press, however, assumed other purposes of the exchange operations. David Mason (Edinburgh, Liberal) asked in the House on May 4: "What is the policy of the Chancellor of the Exchequer? * * * It is a sort of dole, a supplement, to the general trade of the country. In order to keep the exchange low and stimulate exports he is continually borrowing."

In the same debate Mr. Boothby (Aberdeen, Conservative) observed that the Chancellor of the Exchequer would be "well advised not to pursue the will-of-the-wisp of gambling in foreign exchanges in order to keep sterling at an artificially low level." Sir A. M. Samuel (Farnham, Conservative), also in the debate of May 4, assumed similar purposes of the fund while making some not very respectful allusions to the financial skill of the United States: "We shall have a clash of currency aims between the United States and ourselves if they put up a fund on the same lines as this fund. * * * The United States are mere children in these exchange matters. * * * We shall, 'pull devil, pull baker', be trying, with the aid of our exchange fund, to keep the dollar up, and they, with their fund, will be trying to keep the dollar down."

Fortified with new resources, the British fund turned its attention to the most important country still on the gold standard, France. The pound-franc rate was held down to approximately 86 francs until the World Economic Conference opened in London in June. The value of the franc was further supported by a short-term loan of £30,000,000.

Once again the comment in London financial circles indicates that the fund is believed to act only to maintain a long-term depreciation of the pound. "Support from the British exchange account caused the franc to strengthen," said *The Economist* on Jan. 13, 1934, in reviewing the foreign exchanges for the year 1933. "Further support was forthcoming in May in the form of the French Treasury's sterling credit of £30,000,000." *The Statist* of May 6 referred to "energetic action on the part of the Bank of England to keep sterling down on Paris."

The resentment felt in Great Britain at the failure of the United States to agree to stabilize at approximately $4 at the time of the Economic Conference in London is wholly understandable. "We would rather see the

dollar about $3.40 than at $4.40," Sir A. M. Samuel had remarked in the House of Commons. "On the other hand the Americans would, I assume, rather see the dollar at $4.40 than at $3.40 to the pound. It would help the export trade." The American departure from gold had been a severe blow from which the exchange equalization fund was never wholly to recover. The only remaining hope for a relatively low pound and a corresponding advantage in world markets lay in a speedy agreement with the United States, before the depreciation of the dollar should gather momentum. When President Roosevelt's letter of July 3 spoke for the "mere children in these exchange matters" as not yet willing to stabilize, British monetary policy received a severe blow.

During August and September, 1933, the fund was apparently not very active. In October, however, the question of supporting the French franc again became acute. The franc was falling and the pound was rising. Budget delays and other financial difficulties in France were weakening confidence. Money was being transferred from Paris to London. In this situation, with a rising pound and a new influx of refugee capital from abroad, the British exchange fund faced the same task which it had performed so successfully with respect to the United States when that country was still on the gold standard. France now remained on the gold standard, and the fund at once went into action. It made repeated purchases of French exchange, and in November, 1933, the Bank of France lost more than 3,000,000,000 francs in gold. At the end of the year the French financial situation temporarily improved; the franc rose of its own accord, so to speak, and the British fund no longer had to sell sterling against francs.

Throughout this campaign there is to be found a tendency of financial opinion to ignore the British official version of the purposes of the exchange fund and to assume a permanent and forceful intention to depress sterling. As the year 1933 progressed, and foreign countries became increasingly aware of the work of the British fund, comment almost vanished from the British press. Nevertheless a few bare statements of fact may be found for the Autumn months of 1933. "The control intervened throughout the week to limit the rise in the pound, which, if overaccentuated, would be contrary to the interests of British trade," runs a financial note in the London *Times* of Nov. 11, 1933. "A rise in the London-Paris rate brought a resumption of control operations, as a result of which the rate fell again," said the same paper four days later.

The Economist is apparently divided within itself. In its review of the foreign exchanges in 1933, it observes: "Frequent purchases of francs and gold by the British exchange account were needed to support the franc, and during November alone the Banque de France lost 3,375,000,000 francs in gold. Fortunately the passing of the budget by the Chautemps government in early December brought relief. The gold outflow ceased, British support became unnecessary, and the franc closed for the year at Frs. 83.5." In that same month of November, however, *The Economist* had remarked that "we hope that the British authorities will not deviate from their previous policy of allowing the exchange value of the pound to be the free resultant of economic forces and not the plaything of *Machtpolitik*." Considering the obscurity of the latter comment, it is not surprising that Englishmen as well as foreigners are rarely clear about the implications of

the work of the British exchange equalization fund.

The gold policy of the British exchange fund is even less well understood than its foreign exchange operations. Apparently some purchases have been made. Mocatta & Goldsmid, one of the four firms of bullion brokers operating in the London gold market, maintain in their annual report for 1933 that the influence of the exchange equalization fund in connection with the year's gold movements must not be underestimated. No announcement is made of its dealings in either gold or exchange, but in so far as it controls the movements of exchange, it controls the price of gold. For the year 1933 the British surplus of gold imports was £191,000,000, of which the Bank of England bought £106,000,000. This leaves £85,000,000 either in the hands of foreign depositors or held by the exchange equalization fund.

Some of the pitfalls of policy and opinion which beset an American exchange stabilization fund may be discovered in the history of the British account. First of all, it is necessary to distinguish between operations intended to depress the home currency on the foreign exchanges which, if successful, immediately influence the rate and benefit home exporters, and the purchase of gold which—with all due respect to Professor Warren and the Washington advisers of late 1933—has a more remote connection with exporters' prices.

In the second place, it must be understood that such a fund can operate simply and effectively only against a country which is willing to export gold. Otherwise fund purchases of exchange degenerate into a fight between official speculators, with the battle not to the richest but to the most skillful and experienced. In the third place, refugee capital means little to the ordinary American, although in these last years it has been flowing in and out of the country with every changing storm signal. Since the habit of analyzing the exports and imports of capital is not yet well developed, it is unlikely that an American stabilization fund will be as well equipped to control capital movements as the British fund has been. Finally, the United States has no definite "dollar area" comparable to "Sterlingaria" which must be kept in line in order that a definitely planned foreign trade may not be disturbed.

The problems which face an American stabilization fund are therefore more vague, point for point, than those which have been met by the British fund. The succesful operation of the device depends upon the clear recognition by the management of the individual characteristics of American economy and of the relative influence of the factors which determine the level of the international exchanges.

Joyce and the New Irish Writers

By Ernest Boyd

[Mr. Boyd is an Irishman who, after some years in the British consular service, resigned and settled in New York to pursue a career in literary criticism. He is the author of *Ireland's Literary Renaissance* and an associate member of the Irish Academy of Letters.]

To many people the recent removal of the censorship ban on James Joyce's *Ulysses* will seem to be the most important event in the history of contemporary Anglo-Irish literature. First published serially—until it was suppressed—in the *Little Review* of New York, then issued in Paris for limited circulation in 1922, this book has aroused, under these restricted conditions, more comment and controversy than the work of any modern Irish writer, with the possible exception of J. M. Synge's comedy, *The Playboy of the Western World.* Officially banned during all these years from both England and America, *Ulysses* has been as widely read and discussed in these two countries as if it had been on sale in every book shop. Now that it is available in its complete unexpurgated form (New York: Random House, $3.50), it is very natural that one should speculate on its reception at the hands of the general public.

Outside Ireland itself, this quintessentially Irish and local study of Dublin life has evoked somewhat extravagant enthusiasm and highly exaggerated claims for its importance. The distinguished French critic, novelist and translator, Valéry Larbaud of the *Nouvelle Revue Française,* pitched the note when he declared that, with *Ulysses,* Ireland had made her re-entry into European literature. It is true, Mr. Joyce has made a daring and often valuable technical experiment, breaking new ground in English for the development of narrative prose, although the extension of the method, as exemplified in the published portions of *Work in Progress,* may well give his admirers pause. But the "European" interest of the work must of necessity be limited to its form, for its content is so local and intrinsically insignificant that few who are unfamiliar with the city of Dublin thirty years ago can possibly grasp its allusions and enter into its spirit.

Essentially *Ulysses* is a continuation of the studies of certain Dublin types first adumbrated in the superb volume of short stories, *Dubliners,* and in that fine novel, *A Portrait of the Artist as a Young Man,* neither of which excited anything like the furore in esoteric circles which greeted *Ulysses.* Much has been written about the symbolic intention of this work, of its relation to Homer's *Odyssey,* to which the plan of the three first and last chapters, with the twelve cantos of the adventures of Ulysses in the middle, is supposed to correspond. Irish criticism, on the other hand, is more impressed by its simple realism, photographic in detail and documentation, while admitting the power of Joyce's bewildering juxtaposition of the real and the imaginary, the commonplace and the fantastic. He is the first, and perhaps the last, Irish Expressionist, showing

a certain kinship with the Germans Walter Hasenclever and Georg Kaiser.

To claim for this book a European significance denied to W. B. Yeats, J. M. Synge or James Stephens is to ignore its genesis in favor of mere technique, and to invest its content with a mysterious import which the actuality of the references would seem to deny. James Joyce is endowed with the wonderful, fantastic imagination which conceived the fifteenth chapter of *Ulysses*, a vision of a Dublin Brocken, whose scene is the sordid underworld of that city. But he also has the defects and qualities of the French Naturalists of the Zola school, which prompt him, for example, to catalogue all the various street-car lines and to explain with the accuracy of a guide-book how the city obtains its water supply. His eroticism, too, so misleadingly advertised by the censors, will be revealed as oscillating between mocking Rabelaisian ribaldry and the contemptuous and disgusted horror of the body which makes Swift the authentic precursor of this typical expression of Irish asceticism. As Judge Woolsey says in the decision prefacing this edition, "In spite of its unusual frankness, I do not detect anywhere the leer of the sensualist." Thus, the hopes of a certain type of reader are fortunately doomed to disappointment.

Turning from James Joyce to the new group of writers who may be described as representing the Free State period in Anglo-Irish literature, the first fact that strikes one is the complete absence of his influence on these younger contemporaries. His own generation, and more naturally the older generation, developed along utterly different lines, so that there is little or nothing in common between him and either Yeats, AE (George Russell), Synge and Lady Gregory, or Padraic Colum, James Stephens and Lennox Robinson. So far as Joyce has influenced the writers of today, they must be sought in England or America. In Ireland his influence has been nil. Although his work is saturated with the atmosphere of his native country, and his unique theme has been himself and his native city, he has been a lifelong exile, and has very deliberately and pointedly held aloof from all those who contributed to that remarkable flowering of Irish talent, the Irish literary renaissance.

His refusal to be elected a member of the Irish Academy of Letters, which was founded in 1932, very definitely emphasized his desire to be dissociated from the intellectual life of his country. Unlike most academies, this Irish institution is essentially unacademic, having been called into existence by circumstances which make it an important event in the history of Anglo-Irish letters. Its members and associate members, numbering some thirty, include every outstanding Irish writer of today, with a very few exceptions, such as James Joyce, Sean O'Casey and Douglas Hyde. The Academy was formed primarily as a protest and protection against the encroachments of censors and politicians upon the independence and integrity of Irish literature. The roll-call of names is one of which any other country but Ireland would be proud: G. B. Shaw, W. B. Yeats, Oliver Gogarty, Lennox Robinson, Frank O'Connor, Seumas O'Sullivan, F. R. Higgins, Forrest Reid, Peadar O'Donnell, Brinsley Macnamara, Francis Stuart, St. John Ervine, E. OE. Somerville, James Stephens, T. C. Murray, Austin Clarke, Seán O'Faoláin, Padraic Colum, Liam O'Flaherty. To which must be added the associate members, Eugene O'Neill, Helen Waddell, J. M. Hone, L.

A. G. Strong, John Eglinton, Walter Starkie, Stephen Gwynn, Shane Leslie and Lawrence of Arabia.

From the late Eighties until the signing of the treaty constituting the Irish Free State in 1921, Ireland had witnessed a progressive development of Anglo-Irish literature, which has given to the world some of the chief figures in the world of letters today. Dublin was for several decades a centre of intellectual excitement and creative activity, which culminated in 1916, the year of the Sinn Fein insurrection. Then politics held full sway and under the Free State Government literary activity declined, until the Irish writers found themselves in a position somewhat akin to that of the Russian intelligentsia under the Czars. Their czar is the censorship, which frowns upon all kinds of unorthodoxy, and derives its strength from the indifference of an apathetic peasant population to whatever indignities are imposed upon the free play of ideas. Irish literature has been driven out of Ireland, and depends exclusively on British and American support.

With the exception of Seumas O'Sullivan's quarterly *Dublin Magazine,* no periodical of any literary pretensions is published in Ireland. AE's *Irish Statesman* died, despite generous American help, simply because neither the government nor any group of individuals would subsidize it, and the general public ignored it. There is not a daily or weekly newspaper in the country above the level of the crudest provincial journalism. Once Irish authors were published in Ireland; today they are all on the lists of London publishers. To add intellectual insult to financial injury, the majority of the members of the academy have, at one time or another, been banned by the censorship. A list of the taboos of this inconceivable organization would make the efforts of the Boston Watch and Ward Society seem broad-minded. In the space of one year I counted more than one hundred banned books, including such universally acceptable authors as Louis Bromfield, Heinrich Mann, H. G. Wells and John Dos Passos.

Thus it can be seen that a thoroughly unacademic motive prompted Bernard Shaw and W. B. Yeats to found the Irish Academy of Letters. The wisdom of this effort at cohesion was proved by the attitude of the Irish press. The usual gibes were heard to the effect that, because they do not write in Irish, the academicians are not Irish. Mr. de Valera's *Irish Press,* written almost exclusively in English, discovered that the authors were chosen "more as a result of their success in Britain and America than because of any reflection in their published works of the real Ireland." Opposition to the censorship, it was sapiently pointed out, is no proof of literary excellence. Contrary to the evidence, the fiction was again maintained that there are "a philosophy of life and conduct and an appreciation of moral value" in Ireland which mark that country off from the rest of this wicked world. So far, however, no list of Irish-speaking authors writing in their mother tongue has been produced to put to shame the renegades whom the academy and the rest of the world rightly regard as the not unworthy representatives of their country's intellectual activity.

When the politicians were appealing to the intellectuals of the world for help and sympathy, they received both. Now they are bent upon stifling all manifestations of freedom of thought. As the founders expressed it, "there is in Ireland an official censorship, possessing and actively exer-

cising powers of suppression which may at any moment confine an Irish author to the British and American markets, and therefore make it impossible for him to live by distinctive Irish literature."

We have now some conception of the altered conditions under which the Free State generation of Irish writers have been working, as compared with their predecessors. Like the latter, who once lived and worked in Ireland, they, too, are now scattered, and London is the exclusive scene of their publishing activities. They get their first hearing in American and English periodicals, and their champions are not Irish, but English critics. With the exception of F. R. Higgins, Austin Clarke and Sean O'Casey, they are all novelists, and for purposes of record I shall name them and their chief works: Seán O'Faoláin, author of a book of short stories, *Midsummer Night Madness*, and a novel *A Nest of Gentle Folk;* Frank O'Connor, a volume of short stories entitled *Guests of the Nation;* Peadar O'Donnell, three novels published so far in America, *The Way It Was With Them, Adrigoole* and *There Will be Fighting;* and Francis Stuart, *Pigeon Irish, The Coloured Dome, Try the Sky* and *Glory,* four novels published in America, in addition to an earlier novel and a volume of verse which are not available in this country. Liam O'Flaherty's chief works are: *Thy Neighbor's Wife, The Black Soul, The Informer, Mr. Gilhooley, The Assassin, The House of Gold* and *The Puritan.* All are members of the Irish Academy of Letters.

Those who are familiar with the Irish literary movement will at once be struck by the preponderance of fiction, as against poetry and drama in the two preceding generations, although the romances of Standish O'Grady were the starting point of the literary renaissance fifty years ago. Had it not been for the essays of John Eglinton, the occasional prose pieces of AE and Yeats's two volumes of stories, one might have said that during the entire period from 1880 until the war, the art of prose had been largely neglected. John Eglinton, always, at best, an occasional writer, was for many years the only author of the revival who wished to be known solely as a prosaist. Even those who wrote fiction preferred the short story to the novel, and usually contrived some even more amorphous form of narrative, held together by a loose thread. Is *The Crock of Gold,* for example, strictly speaking, a novel? Or *The Charwoman's Daughter,* for that matter? It is narrative prose; that is all that can safely be said for either of these fine works.

Of novelists in the proper sense of the word there have been very few until recently, and they did not appear to be so intimately a part of the movement as the poets and dramatists. A great deal of Irish fiction has been frank pot-boiling, even by authors of some standing in other fields, and rightly finds no mention in any history of the Irish literary renaissance. The names of Emily Lawless, Jane Barlow and Shan F. Bullock, to mention but three of more serious purpose, do not shine with the same lustre as those of their contemporaries in poetry and drama. George Moore, of course, gave us *The Lake* and *The Untilled Field* as models of Irish fiction, but we had to wait for James Joyce and Brinsley Macnamara, before there was any evidence that the Irish novel might come into its own. Daniel Corkery, who declined membership in the academy because he holds that Irishmen should write in Irish, disproved his own dictum in

1917, when his *Threshold of Quiet* appeared, a beautiful piece of work which never received the widespread recognition it deserved.

Nowadays fiction is the chief medium of the new writers, while the theatre, once the all-absorbing focus of activity, can boast of only one first-rate newcomer, Sean O'Casey. Despite the acclaim with which the present company of Abbey Players was received in the United States during its last tour, nobody familiar with the traditions of the Irish National Theatre could do other than note with regret the decline in the quality of the acting and the extraordinary banality of the new plays, all of which might have been written twenty-five years ago. Significantly, the authentic survivors of the original Abbey Players could not elicit the same applause for their fine interpretations of *Juno and the Paycock* and *The Plough and the Stars*. Mr. O'Casey's latest play, *Within the Gates,* is English in characters and setting, and has likewise failed to recommend itself to a New York producer.

One point of similarity exists between the plays of Sean O'Casey and the stories of Liam O'Flaherty, Seán O'Faoláin, Frank O'Connor and Peadar O'Donnell. They are all the work of the disillusioned realists of the Black and Tan period. Some of the authors took an active part in the events which they portray. Sean O'Casey fought in the Sinn Fein rebellion of 1916, and Peadar O'Donnell was engaged against the Black and Tans and later, as an opponent of the treaty, he joined the Irish Republican Army in its struggle against the Free State forces, was imprisoned, escaped execution and finally jail. *There Will Be Fighting* pulsates with the realism of experience, just as *The Way It Was With Them* conveys the true note of life on one of those primitive islands which recently received such adventitious attention, when the public whim seized upon Maurice O'Sullivan's *Twenty Years A-growing,* a similar record of the Great Blasket, as if O'Donnell and Synge had never written.

Liam O'Flaherty has much of the violence, cynicism and brutal sincerity of Sean O'Casey. His Ireland, like the slums of O'Casey's Dublin, is far removed from the mysticism, the leprechauns and the fairies of the traditional Celtic twilight. He is also the most prolific of this group. His first novel, *Thy Neighbour's Wife,* appeared in 1924, and since then he has given us six novels and five volumes of short stories. Like O'Donnell, he writes out of first-hand, active experience of the Irish war, and the very titles of his books are suggestive of the fierce power of their contents. *The Assassin* is a study of political assassination. *The Informer* invokes that term of greatest opprobrium in Ireland to depict the career of a spy in revolutionary circles. *The Puritan* is a savage indictment of the type, with special reference to the peculiar manifestations of puritanism in a country where it is strangely distorted into a form of patriotism. A greasy tragedy in mean streets, by the very simplicity of its elements, *Mr. Gilhooley* has a Russian quality, a quality which is elsewhere perceptible in Liam O'Flaherty's work.

Frank O'Connor's one book of stories, *Guests of the Nation,* at once revealed his quality, and in the title story he has compressed more than others require an entire novel to relate. The eternal conflict and misunderstanding between the English and the Irish, the radical differences in their ways of thinking and feeling are dramatically expressed in this account

of how some English soldiers who are being held as hostages, and have come to be the friends of their captors, having no political emotions whatever, are dismayed and horrified when they are cold-bloodedly shot in reprisals. They cannot fathom the minds of these Irishmen who, but a few hours before, were peacefully playing cards and arguing with them about matters of anything but life and death. Francis Stuart, on the other hand, differs from O'Connor and all the others by reason of a large degree of mystic fancy in his vague treatment of current conditions in Ireland. An aviator and a Republican, he is also a devoted student of St. John of the Cross. His scenes are laid anywhere between Dublin and China, as befits an airman, and he is the most disembodied exponent of the modern trends in Irish fiction. Born in Australia and educated at Rugby, he lacks that autochthonous quality which gives the work of his contemporaries its distinctly Irish flavor.

The vogue for realism, so long absent from Anglo-Irish literature, tends to incense those patriotic readers who, despite the horrible evidence of 1916 and 1918-21, wish to see Ireland in terms of Yeatsian poetry rather than the realities of war and civil war. Unfortunately, these men were witnesses of that whereof they speak, and they cannot be thrust aside as libelers of their country. Much that is sordid and ugly and cruel, much that is brutal and brutalizing in Irish life has at last found expression in a literature which, whether through accident or design, has heretofore concentrated on what W. D. Howells, in a
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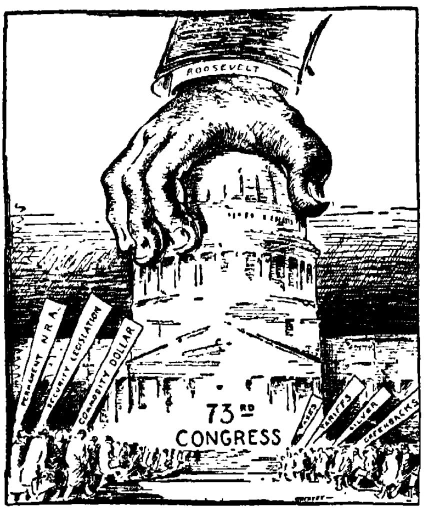
Current History in Cartoons



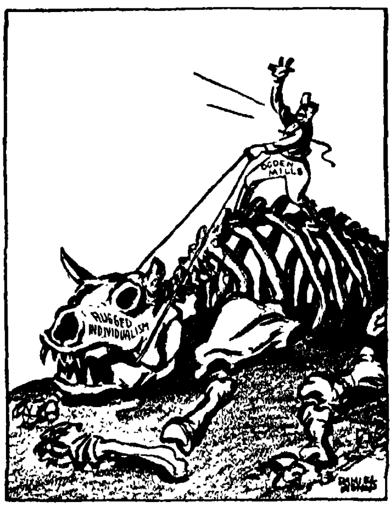
A possible addition to the line
—*New York Herald Tribune*



Deep valleys make high mountains·
—*Brooklyn Daily Eagle*



The hand on the lid
—*San Francisco Chronicle*



All aboard for 1936
—*St. Louis Star-Times*



"O. K., he's the doctor"
—*The Post-Standard*, Syracuse



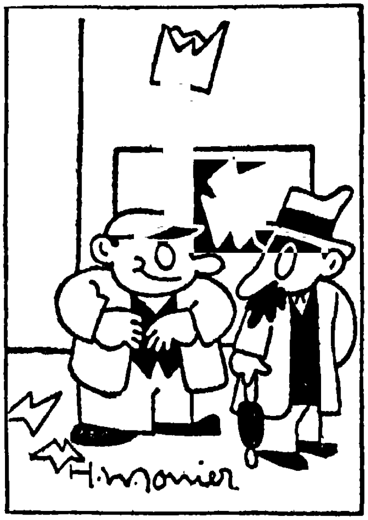
"Do your share"
—*The Salt Lake Tribune*



The ruins of the temple
—***Public Ledger***, Philadelphia



Awaiting further orders
—*The Sun*, Baltimore



Paris Riots—"A fine day today"
"You are a royalist?"
"No, a glazier"
—*Oeuvre,* Paris



Marianne—"Pour l'amour de Mike! It's not a washerwoman you want, it's a steam laundry!"
—*Glasgow Bulletin*



Cuba
—*Chicago Daily News*



Our Investors—"Please, Dr. Schacht, we are the Waits"
Dr. Schacht—"Well, dot's O. K. by me, boys—just go on waiting"
—*Daily Herald,* London



"That's life! A year ago I was a general like you"
"Cheer up, my friend; a year ago I was a bootblack like you"
—*Guerin Meschino,* Milan



Coming events cast their shadows before them
—*De Groene Amsterdammer*



The affair seems pretty well settled
—*Public Ledger,* Philadelphia

A Month's World History

Storm Signals in World Politics

By ALLAN NEVINS
Professor of American History, Columbia University

As for months past, the world during January showed two distinct centres of international tension. One was in the Far East. The increasing fear of an armed collision between Russia and Japan in what Senator Borah has just called "the sad bean fields of Manchukuo" was reflected in nervous speeches by both Japanese and Soviet Ministers, and in a steady succession of dispatches from Moscow, Tokyo and Washington. The whole world seems inclined at the moment to place a question mark upon Japan's intentions. The Dutch, with their huge, wealthy and ill-protected possessions in the East Indies, have manifested uneasiness over the the future course of the virile and decidedly aggressive empire to the north of their holdings. Australia and New Zealand are credibly reported to have felt relieved when Japan engaged herself in the Manchurian adventure. The United States has not yet approached a real solution of the problem of the Philippines, and is acutely conscious of Japanese power. But for the present Russia is the most fearful of a conflict, and responsible leaders have said so frankly in tones of grave warning.

The other area where storm signals fly is of course Central Europe and especially the Austro-German frontier. The Austrian Nazis have steadily increased their activities. By acts of terrorism, by efforts—in part successful—to undermine the Heimwehr and win it to the support of Hitler, by unremitting propagandist pressure, they have tried to make headway against Chancellor Dollfuss. Throughout January the fear of a Nazi seizure of power in Vienna grew. It became evident that, unless the powers intervened vigorously, a crisis could not long be avoided. The equilibrium of Central Europe, like that of the Far East, seemed dangerously unstable.

These facts indicate clearly how real the danger of war in the world still is, how largely the globe is still ruled by force or the threat of force. The time is favorable to those who boldly propose violent means for selfish ends. Events during January have shown how deeply and inextricably the Western Powers are engrossed with internal problems. The United States has been intent upon devaluing the dollar and stabilizing its currency. Great Britain is laboring desperately to restore trade and a measure of prosperity. France, as a result of scandals resulting from governmental laxity, has been in the throes of a prolonged Cabinet crisis accompanied by rioting and other forms of internal dissension. Not one of these three na-

ions was in a position to act vigorously and decisively outside its own borders, even if it wished to do so.

An agreement upon the reduction of armaments has never been more needed by the world; but only snail-like progress has been made in the negotiations between Paris and Berlin. The great question as to when the Disarmament Conference may be reconvened is at this writing still unsettled. The steering committee of the conference was to meet in London not later than Feb. 12 to decide whether it was feasible for the general conference to recommence its work in the near future. Every one, including Arthur Henderson, agrees that it is useless to talk of drafting a general disarmament treaty until Germany and France have come to an accord on the basic questions. Is such an accord possible, and if so, when? These questions are still unanswered. Many observers feel more optimistic than during December. But negotiations between the French and Germans, with the British and Italians giving what aid they can, may be spun out for many weeks.

These negotiations have for the most part been carried on in the tradition of the old diplomacy; that is, they have been conducted chiefly by written notes, and they have ostensibly been secret. The notes have not been published. But little by little their contents have leaked out, so that the story of what has happened in Paris and Berlin is now fairly well known. The story of events during January may be rehearsed in a few paragraphs.

The French Foreign Minister, M. Paul-Boncour, on Dec. 31 sent Ambassador François-Poncet to Berlin with a note on disarmament. The next day the Ambassador obtained an audience with Chancellor Hitler and presented the note. So far as information can be gleaned, it was conciliatory in tone, and made a favorable impression upon the German Government. Arthur Henderson told the press that he was pleased with its general character. Apparently it was vague, perhaps intentionally, on numerous points. But it is understood that France proposed to reduce her air force immediately by one-half; promised that she would gradually lessen the number of her troops, and gradually discard weapons of offense; and offered to accept the Franco-German pact of non-aggression previously suggested by Hitler. Moreover, Paris declared it would consent to an increase of the Reichswehr to 200,000 men, enlisted for short terms, if the Reich would agree to an immediate supervision of armaments. Mr. Henderson stated that if the German reply were in any way similar in tone, prospects for an eventual agreement would seem bright.

After studying the French note for nearly three weeks, the German Government delivered its reply in Paris on Jan. 20. Again the tone of the communication was said to be reasonable and conciliatory. But its contents, which are less fully known than those of the French note, are believed to mark little advance over the position which has existed since last October. The German Government is understood to demand a force of 300,000 regulars, with a defensive equipment equal to that of the French troops. In support of this claim, it points to the large colonial forces possessed by France. Moreover, the German Government declares that it cannot regard the Storm Troopers and other semi-military formations as soldiers, though it will consent to their limitation and control if similar bodies in other countries are given the same treatment. As for aviation, the Ger-

man Government is unwilling to accept an unequal status. French reduction by one-half would still leave Germany hopelessly inferior, and the Reich demands an air strength equal to that of France. Finally, Berlin asks that France and other powers begin their disarmament at once, without any "probationary period." Any such period, it asserts, is a discrimination against Germany.

The total result of the exchange of notes, therefore, was to leave essentially the same chasm as before between German demands and French refusals. The same vital question—whether Germany should at once, or only after meeting certain conditions, be allowed to have air forces, tanks and artillery of moderate calibre—remained at issue. If negotiations were to break down at this point the outlook would be serious. But the conciliatory tone of the notes indicated that they would not break down. Europe, in fact, cannot afford such a breakdown.

Realizing this, Great Britain and Italy on Jan. 29 simultaneously intervened. Sir John Simon and Mussolini had held conversations in Italy without much visible result early in the month (Jan. 3 and 4). But on Jan. 29, within three hours of each other, the British Government published a memorandum and the Italian Government an "eight-point program." The Italian document, which appeared first, was the more ambitious and the more definite. Mussolini flatly declared that the German demand for an army of 300,000 men should be accepted. He proposed that all other nations limit their military expenditures and armaments to the existing levels. He would apply his Four-Power Pact. He would have Germany rejoin the League of Nations, and re-enter the Disarmament Conference at Geneva. Chemical warfare should be abolished, and the bombardment of civil populations stringently forbidden. Mussolini, it is important to note, declared that Germany's claim to equal rights had undeniable justice, and that Chancellor Hitler's declaration of peaceable intentions was worthy of full faith.

The British Government also declared that Germany must return to the League of Nations and the Disarmament Conference. It expressed the opinion that 200,000 troops are enough; but asserted that the actual number is less important than the principle of parity for France, Germany, Italy and Poland. Germany should be allowed bigger mobile guns, and tanks weighing not more than six tons, the other powers agreeing to the gradual destruction of all tanks of more than sixteen tons. In order to reassure France, London proposed a clause in the arms convention by which, if any nation were found to have violated its terms, the other powers should consult upon means of "restoring the situation." This clause, stated the British Government, would, when taken together with Hitler's proposal for pacts of non-aggression, "present a sum total of security worthy of general acceptance."

Thus the situation stood in the first week of February. That week ended with the German Government studying the British and Italian proposals and spokesmen for France declaring that the next move is for Germany to make. Hope for a solution is still widely held. Those who are discouraged point to the fact that the Disarmament Conference has now entered its third year. But the optimists can argue that the course of events offers a parallel to negotiations during the Rhineland and reparations controver-

sies. Then also we saw several nations, France at their head, presenting the most stubborn resistance to inexorable facts—a resistance which finally gave way to reluctant acceptance of the inevitable.

There is no question whatever that the unequal status of Germany will not endure much longer. Either the Reich will arm or other powers must disarm. If Germany cannot arm openly, she will arm—indeed, is already doing so—secretly. The chief point of difference is that France, while accusing Germany of secret recourse to such weapons as tanks, airplanes and artillery, would give her the formal right to them only after a fixed period of time, while Germany demands them at once. Great Britain and Italy regard the "probationary period" as dead. The essential question would seem to be just when and how France also will reconcile herself to that fact.

GERMAN DEBT PAYMENTS

President Roosevelt on Jan. 23 unexpectedly summoned the German Ambassador, Dr. Hans Luther, to the White House and delivered a demand that the private American creditors of Germany be given the same treatment as Swiss or Dutch creditors. This demand was forcibly stated. Dr. Luther showed visible disturbance afterward and lost no time in communicating with Berlin by telephone. Already representatives of American, British and Swiss creditors had reached Berlin for a conference on the partial German transfer moratorium. The Americans were Dr. Laird Bell, vice president of the Foreign Bondholders Protective Council and a Harvard classmate of President Roosevelt, and John Foster Dulles, a New York attorney. When the conference opened on Jan. 25 the Americans and Britons were astonished to learn that Dr. Hjalmar Schacht, head of the Reichsbank and principal German negotiator, had been "called to Silesia." However, discussion began. It quickly developed that the Americans and British, with the moral backing of the absent Swedes, stood together against the Germans and the Swiss, who had the moral backing of the absent Dutch.

The grievances of the Anglo-Saxon creditors have already been outlined in these pages. Dr. Schacht had twice arbitrarily cut the interest on German medium-term and long-term bonds. For the last half of 1933 he had decreed that half the interest to American and British holders should be paid in cash and half in scrip, the scrip being redeemable in cash at half its face value and the creditors thus getting 75 per cent of the interest due. For the first half of 1934 he had decreed that creditors should get only 30 per cent in cash and 70 per cent in scrip. This would yield approximately 65 per cent of the interest due. But by a special arrangement, the Swiss and Dutch creditors were given preferential treatment, receiving a 100 per cent payment in return for the purchase by their nations of an extra quota of German exports. The Americans, British and Swedes objected that Dr. Schacht's cuts were excessive and unnecessary; likewise they protested against the favoritism shown to Switzerland and Holland. At the same time, the Americans pointed to clear evidence that Germany, having depreciated the market value of her bonds, was taking advantage of this depreciation to buy them in at bargain rates.

In the week following Jan. 25 the German debt problem was placed squarely before the world. At first progress was slow. But it shortly became evident that the Germans had been greatly influenced by President

Roosevelt's expressed readiness to undertake German-American trade negotiations in an effort to find means of redressing the trade balance between the two nations, now heavily in favor of the United States. Both the Economic Ministry and the Foreign Office, under pressure from German exporters, were eager to take advantage of this offer. Their representatives in the conference, Dr. Wilhelm Posse and Dr. Ritter, therefore wished to placate the Americans. Dr. Schacht appeared personally before the conference on Jan. 29 and declared that he was unwilling to budge. As the watchdog of German finance, he specializes in such refusals. The cuts, he insisted, were made only after careful study of the foreign-exchange situation showed them absolutely necessary. But the other German negotiators took a different view; they declared that something must be done to satisfy both the Americans and British; and on Jan. 31 a decision was reached.

This decision was ingenious. It was arranged that Germany should continue to pay only 30 per cent of the interest in cash, as Dr. Schacht had planned, but that the additional scrip payment should be redeemed at 67 per cent instead of 50 per cent of its face value. This meant a decided gain for bondholders. Instead of receiving 65 per cent of the face value of their coupons, they will receive a little more than 75 per cent. This arrangement has proved generally satisfactory to American and British bondholders, and will remain in force until July 1, when the moratorium expires. Two groups of bonds, the Dawes Plan 7s and Young Plan 5½s, are not included in the scrip scheme since interest on them is being paid in full in cash.

One or two large results of the debt conference must be viewed with special gratification. The creditors made it clear that they will not accept "unilateral" decrees by Germany which arbitrarily fix interest rates, but that agreements must be reached by negotiations. It has been shown that the stubborn-minded Dr. Schacht is not sole master of the situation, but can be overruled by other German officials. Finally, the way is now apparently open for a sensible modification of German-American trade relations, lowering part of the intolerably high American tariff wall. It should be added that on Feb. 5 negotiations began in Berlin for the prolongation of the existing credit arrangement covering the short-term commercial and bank debts of Germany. A German committee under Dr. Schacht on that date met representatives of creditor interests in ten other nations, including the United States. Since the existing agreement was made a year ago, the Germans have reduced their short-term indebtedness by about 900,000,000 marks.

Meanwhile, clear evidences are forthcoming of industrial recovery throughout most of the world. The latest issue of the monthly bulletin of economic statistics published by the League of Nations shows (Jan. 25) that European and American industrial production continues to rise. Gains are reported for November, 1933, in a long list of countries. General indices, with 100 representing the 1928 average, show that industrial production in November stood in Japan at 138; in Sweden at 95; in England at 92; in France at 84; in Canada and Germany at 71, and in the United States at 66. France and Belgium alone show a recent recession, and in Sweden, the United States, Canada and Germany the gain has been notable. These brightening economic skies should have their effect on the weather of international politics.

The Devaluation of the Dollar

By D. W. ELLSWORTH
Editor, The Annalist

THE approval by President Roosevelt on Jan. 30 of the Gold Reserve Act of 1934 and his proclamation of Jan. 31 completed, for the time being at least, the process of lowering the gold value of the dollar. This began last April when the Secretary of the Treasury, acting under the emergency powers granted to him by Congress, refused to license the export of gold when the position of dollar exchange in relation to European gold currencies made such transactions profitable. Notice was thus served on the world that the gold standard was definitely suspended by the United States, and full confirmation took place on June 5 when Congress adopted a resolution repealing the gold clause in Federal and private contracts.

The Gold Reserve Act in its main provisions does the following things:

1. Vests in the United States Government title to all gold coin and bullion held by the Federal Reserve Banks.

2. Amends the Federal Reserve Act to provide that Federal Reserve notes shall be payable in lawful money instead of in gold.

3. Substitutes gold certificates for gold in the legal reserve requirements.

4. Provides that no gold coins shall be paid out or delivered by the United States, but that all gold coin shall be withdrawn from circulation and, with other gold owned by the United States, shall be formed into bars of such weights and fineness as the Secretary of the Treasury may direct.

5. Provides that any devaluation "profit" shall go to the Treasury, and out of this "profit" sets up a fund of $2,000,000,000 to enable the Secretary of the Treasury to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary for stabilizing the exchange value of the dollar.

6. Sets an upper limit of 60 per cent of its former value on the devalued dollar (the Thomas amendment placed 50 per cent as the lower limit) and fixes the life of the stabilization fund at two years, except as extended at the option of the President for one additional year.

The President's proclamation putting this act into effect established a gold bullion standard instead of the former unrestricted gold standard and defined the dollar as 15 5-21 grains of gold nine-tenths fine in place of the former content of 25.8 grains nine-tenths fine. This made the value of an ounce of gold in terms of American currency exactly $35 and made the dollar worth 59.06 per cent of its former gold value.

Two reasons for this devaluation were given by the President. One was that "the foreign commerce of the United States was adversely affected by the depreciation in the currencies of other governments." It has long been contended by the advocates of devaluation and inflation that other countries, by allowing their currencies

to depreciate, have been able to increase their share of international commerce, and it is unquestionably true that in certain cases where there has been extreme inflation induced by rapid currency depreciation the result has been an increase in exports. All first-rate economists agree, however, that any stimulus to a country's export trade resulting from currency depreciation is temporary at best.

What really counts in considering a country's international trade is not whether its share of the total is increasing or decreasing but whether the total volume of trade is increasing or decreasing. The effect of currency dislocations is to produce widespread uncertainty over the future value of contracts and commitments and to bring about a general curtailment of international transactions.

When we examine the export figures for countries the currencies of which have depreciated in recent years, the advantages of currency depreciation are difficult if not impossible to discover. In 1931 Great Britain and a number of other countries were forced to suspend gold payments and their currencies depreciated. But in 1933 exports from Great Britain were only 64 per cent of the 1930 total and a comparison of exports from other countries with depreciated currencies show similar losses, which would appear even greater if measured in gold values.

Under present conditions there is less likelihood than ever that currency depreciation can stimulate an increase in exports, because in recent years import quotas have become of more importance in restricting international trade than have tariffs. Theoretically a currency can be depreciated sufficiently to overcome any tariff barrier temporarily, but no matter how far currency depreciation is carried it can obviously have no effect in overcoming quotas and embargoes.

The second reason announced by the President for devaluing the dollar was that "an economic emergency requires an expansion of credit." Now an economic emergency sometimes requires a contraction of credit but seldom if ever an expansion except in the event of a sudden crisis, as in the stock market collapse in 1929. As matters stood at the end of 1933, the banks were in a position to finance a volume of commercial transactions far in excess of the volume of business in 1929, which was the most active year in the history of this country. Throughout the depression it has been demonstrated again and again that attempts to force bank credit into active use are futile. When confidence in the currency is finally restored and present obstacles to trade expansion, such as the Securities Act, are removed or modified, business will expand, and it will be found that credit facilities are ample even without the potentialities for additional expansion provided by the Gold Reserve Act.

It is something new in modern times for a government deliberately to depreciate the gold value of its own currency. It is something decidedly unorthodox for a country with a huge favorable balance of international payments to take such a step. By no process of logic nor in the light of fundamental economic principles nor by recourse to precedent can it be justified.

If the medium of exchange in the United States were gold coins in actual circulation there would be a tremendous uprising of the people against any attempt to reduce the gold content. But gold coins, largely because of their inconvenience, have long since passed out of general circulation and in their place we use

aper money and bank checks, the alue of which has come to depend ιpon the confidence of the public in n adequate redemption reserve of ctual metal held by banks and the Treasury. The effect of reducing the old content of the dollar in the presnt instance is, therefore, not noticed y the public because prices of comnodities are quoted in the circulating nedium in general use. Only when he cost of living shows a decided ncrease in response to this modern nethod of currency manipulation will he general public begin to complain.

Some observers believe that the resent reduction in the gold content f the dollar will have little, if any, ffect on internal prices. But if that urns out to be the case, then there vas no use in changing the gold conent in the first instance. Internaional commodities, such as rubber nd tin, have already advanced sharpy as a result of the depreciation in he value of the dollar in other counries, and the idea of the administraion seems to be that this rise will gradually be translated into a correponding rise in the price of raw naterials. To insure such a rise, noreover, vast amounts are being orrowed by the government, mainly rom the banks, and the proceeds disributed to the people in the form of vages for public and civil works rojects and by means of farm bouses.

When the new gold value of 59.06 ents went into effect the gold value f the dollar in terms of European gold currencies was about 61.3 cents. The French franc was quoted at 6.42 ents, as against a new parity of exhange, based on the relative gold conent of the franc and the dollar, of .6334 cents. The immediate result was scramble for gold on the Continent, ecause by exchanging francs for gold at the Bank of France and by shipping the gold to this country people could realize a tremendous profit.

Only two things could happen in such circumstances. Either the Bank of France could refuse to allow the withdrawal of gold from its vaults, thereby departing from the gold standard, or it could permit a sudden huge withdrawal of the metal for shipment to the United States. Thus far (Feb. 9), despite domestic political disturbances, the French Government has been resolute in its determination to remain on the gold standard, although no government probably had a more reasonable excuse for departing from it. In consequence it was reported that within a week of the date of our dollar devaluation some $75,000,000 in gold was on its way here from Europe, with additional consignments awaiting shipping facilities.

In placing a $2,000,000,000 stabilization fund at the disposal of the Secretary of the Treasury the administration hopes, by buying gold abroad, plus the effect of private gold shipments, to force the external gold value of the dollar down to its present lawful value of 59.06 cents and to keep it there. Some observers feel that this is going to be a difficult task. If France and the other gold-standard countries permit the free purchase of gold both by private holders of French currency and exchange and by the Secretary of the Treasury through the purchase of franc exchange, the result will eventually be to force the franc into close proximity to its new parity of exchange with the dollar.

In addition, the Gold Reserve Act permits the stabilization fund to acquire United States Government securities, thus stripping the Federal Reserve Banks of all control of the money market and rendering our entire banking system subject to political control.

Congress Bows to the White House

By E. FRANCIS BROWN

THE Seventy-third Congress of the United States seems destined to go down in history as one of the most docile, one of the most amenable to Presidential dictation, ever assembled in the Capitol. This characterization has been borne out by the regular session no less than by the momentous special session of last year. Undercurrents of dissatisfaction could be detected, of course, and many members who maintained silence during the rapid passage of what would once have been regarded as highly debatable legislation undoubtedly had mental reservations regarding the bills presented for approval. Yet few spoke out, nor did many register dissent in the final voting. Seemingly politics has been adjourned.

In explanation there were many factors. The first in importance, and the most obvious, lay in the amazing popularity of President Roosevelt, made manifest in many ways, and not least in the nation-wide celebration of his birthday on Jan. 30. The festivities, to be sure, sought to benefit the Warm Springs Foundation; yet public response to the suggestion of a national birthday party indicated the affection with which Mr. Roosevelt was held by the great majority of the American people. This demonstration emphasized to Congressmen and Senators who must face the electorate next November that for the present it would not be wise to run counter to the President's policies and proposals.

But this was not the whole explanation. Democratic control in Congress was very real, not only because of the party's numerical superiority but because of the Presidential leadership. Every suggestion of insurgency was quickly crushed. Moreover, the House on Jan. 11 adopted a special gag rule prohibiting the amendment of important sections of appropriation measures that may come before the lower body during the present session. Although the rule was passed by a margin of only 5 votes—197 to 192—and 84 Democrats were counted in the negative, nevertheless it did pass, registering an important victory for administration strategy.

The opening weeks of the Congressional session testified again to the demoralization of the Republican party. The voices of its members were seldom raised, and then but feebly, against the program of the Democratic government. To the public these protests sounded like nothing more than the querulous outcries of men who disliked what was being done but who had nothing better to offer. Nor was Republican unity noticeably strengthened by the speech of Ogden L. Mills, former Secretary of the Treasury, on Jan. 29, when he called for modification of "recent tariff practices" and for unemployment insurance, and attacked the Roosevelt administration's recovery policies.

THE DEVALUED DOLLAR

Only against such a background could one understand why it required but two weeks for the passage of the President's Monetary Bill. In a

special message to Congress on Jan. 15, sketching a permanent monetary policy, three points stood out: (1) The President would be empowered to revalue the gold dollar at not more than 60 and not less than 50 cents; (2) the government would take possession of all the gold in the country, including the $3,600,000,000 owned by the Federal Reserve System, giving the Reserve Banks gold certificates in return; (3) the profit on the gold resulting from the devaluation of the dollar would be used to create a stabilization fund of $2,000,000,000 to steady the dollar in international exchange and to support government bonds. The remainder of the profit would be used for recovery expenses.

The House of Representatives, by a vote of 360 to 40, passed the bill on Jan. 20 without amendment. As had been expected, the bill's course in the Senate was not so smooth, but despite considerable debate and attack, the bill was adopted by a vote of 66 to 23 in the Upper House on Jan. 27. All important amendments were defeated by the administration forces and the minor ones were accepted by the House without debate. Three days later the President signed the bill.

Immediate action resulted from the enactment of the Monetary Bill. President Roosevelt on Jan. 31 issued a proclamation reducing the gold content of the dollar from 25.8 grains to 15 5-21 grains, 9-10 fine, making the gold value of the dollar approximately 59.06 per cent of the value fixed by the act of 1900. At the same time the government set the price of gold at $35 an ounce, took title to all gold held by the Federal Reserve Banks in return for gold certificates which would serve as currency reserves, created a $2,000,000,000 stabilization fund and placed the United States on an international gold bullion standard. (For a discussion of the foreign and domestic significance of the new monetary measures, see the article by D. W. Ellsworth on page 714).

RUBBER-STAMP LEGISLATORS

Although the actual legislative output of Congress during the first month of the session was not impressive, the measures passed received so little consideration from either house that observers could not avoid referring to the Congressional rubber stamp. Thus on Jan. 15 both the House and the Senate enacted a bill extending the life of the Reconstruction Finance Corporation until Feb. 1, 1935, and increasing its lending power by $850,000,000. That the bill would be passed had never been denied, but that passage in the Senate would be unanimous and that in the House only one vote would be registered against it after two hours of debate appeared hardly credible. This was all the more strange since it had been expected that moves would be taken to amend the RFC act so as to permit loans to industries. Though Jesse H. Jones, chairman of the RFC, has been opposed to its lending money to industry, he did threaten on Feb. 5 that unless the banks provided credit for private enterprise "there can be but one alternative—government lending."

During January Congress passed with little debate a liquor tax bill levying $2 a gallon on spirits and rates on wine ranging from 10 cents to $2 a gallon. The Treasury estimated that $500,000,000 would be realized annually from these taxes.

In the present Congress, as in previous ones, much of the work is concerned with the regular appropriation bills. The Independent Offices Bill, for example, passed the House on Jan. 12 after attempts to restore pay cuts for

Federal employes and benefits formerly enjoyed by the veterans had been defeated. But in the Senate amendments again were offered affecting the economies instituted last Summer, following the adoption of the Economy Bill. So menacing did the drive for restoration of veterans' benefits become that on Jan. 19 the President issued four executive orders liberalizing the regulations inaugurated last year. Under the new dispensation approximately $21,000,000 would be distributed annually among about 228,000 veterans. Meanwhile, the Senate Appropriations Committee had approved an immediate restoration of one-third of the 15 per cent pay cut for Federal employes and another third on July 1. Ultimately, of course, administration pressure may prevent the adoption of any measure affecting the economies won last year.

Though President Roosevelt informed Congressional leaders early in the session that he desired the enactment of the appropriations bills without delay, at the end of the first month none had been passed by both houses. Pending in the House of Representatives were the Postoffice and Treasury Bill, carrying $670,850,940 for the Postoffice and $149,842,330 for the Treasury; the Interior Department Bill, carrying $31,098,000—$19,380,000 less than for the current fiscal year. Before the Senate, besides the Independent Offices Bill, were bills carrying $84,170,577 for the State, Commerce, Justice and Labor Departments, as well as the Naval Appropriation Bill, carrying $286,445,577.

The regular Naval Supply Bill provides for the maintenance of the present navy and the carrying forward of construction authorized or already under way. But, in addition to the supply bill, there was before Congress the Vinson Treaty Naval Bill, providing for a five-year building program at an annual cost of about $60,000,000 in order to replace obsolete ships and to bring the navy up to treaty limits. It must not be forgotten, however, that last Summer the navy obtained $274,765,924 from the PWA for construction. Incorporated in Mr. Vinson's naval bill was provision for 1,184 naval aircraft, whose construction would coincide with that of the ships authorized by the bill.

TAX REVISION

To aid in the financing of the administration program as set forth in the President's budget message (see February CURRENT HISTORY, page 587), the House Ways and Means Committee was at work during January on a revision of the existing tax laws, particularly that on incomes. Should the committee's recommendations become law, a flat 4 per cent tax would be levied on all incomes; surtaxes would begin with 4 per cent on incomes above $4,000, rising thereafter to 59 per cent on incomes above $1,000,000. Other recommendations of the committee would further tend to tighten the existing law by stopping the loopholes disclosed during the investigations by the Senate Committee on Banking and Finance. A proposal that a sales tax be incorporated in the bill was buried by the House committee, but the committee did recommend some changes in postal rates and repeal of the tax on bank checks.

On Jan. 16, the House passed a bill providing for a Federal Farm Mortgage Corporation with a capital of $200,000,000 subscribed by the Federal Government, with power to issue bonds for $2,000,000,000. "Such bonds," the bill read, "shall be fully and unconditionally guaranteed both as to interest and principal by the

United States." Senate approval followed on Jan. 22.

CWA POLICY

The second bill related to something more controversial—the Civil Works Administration. It is too early to write a complete history of the CWA, but when the Federal Government established this agency it placed itself in the position of a man who has seized the tail of a bear—he dare not hold on, nor does he dare let go. Conceived as a means for immediately stimulating purchasing power at the same time that it decreased the burden of unemployment relief on States and municipalities, the CWA was originally hailed as a brilliant stroke. Within a few weeks 4,000,000 men and women were on payrolls of a sort. Those who had been receiving relief, now had more; those who had been sustaining themselves as best they could were once again at work. It seemed too good to be true; it was.

Probably any scheme of this nature, launched without proper safeguards, was bound to fall a prey to grafters. In any event that seems to have been the fate of the CWA. Fantastic stories of petty plunder at the expense of the jobless floated about until on Jan. 23 the Department of Justice, at the request of Harry L. Hopkins, head of the CWA, began investigations of the alleged graft. President Roosevelt told his press conference the following day that he had received many charges that CWA money had been diverted into political channels. Although disclosures were few, criminal prosecutions in six cases involving accusations of graft were ordered by the PWA on Jan. 30. On that date only three States—Maine, New Hampshire and Vermont—had escaped criticism for mishandling CWA funds.

Yet, graft or no graft, the CWA had succeeded in bringing more substantial relief to the unemployed than they had previously known—a fact with political as well as social significance. When on Jan. 18 the CWA, faced with the exhaustion of its funds, ordered that the persons on its rolls be placed on a shorter working week, a great hue and cry arose, which did not die away when President Roosevelt declared that the CWA program would terminate on May 1. The President, however, did ask Congress to appropropriate $950,000,000 for relief purposes, $450,000,000 of which would be devoted to continuing the CWA until the return of warm weather relieved the pressure on the unemployed. Although his request brought quick response from both the House and the Senate, Congress continued to be restless at the prospect of withdrawing the aid extended by this agency.

In many minds the fear persisted that discontinuance of the CWA would inevitably provoke disturbances in urban centres, in addition to increasing the burden of human misery. Some members of Congress asserted that recovery lay along the path traced by large-scale relief expenditures. Others knew that political advantage could be found in defending unemployment relief against the attacks of men who were more worried by the prospect of an unbalanced Federal budget and inflation than by possible riots of the jobless.

STOCK EXCHANGE REGULATION

The long-awaited move for regulation of stock and commodity exchanges occurred on Feb. 9 when President Roosevelt in a special message to Congress requested legislation "providing for the regulation by the Federal Government of the operations of the exchanges dealing in securities and commodities for the protection of

investors, for the safeguarding of values, and, so far as it may be possible, for the elimination of unnecessary, unwise and destructive speculation." Immediately afterward a drastic, far-reaching bill for regulation of stock exchanges was introduced in both houses of Congress, though it should not be ignored that the bill in its original form had not been given the administration's specific approval.

If enacted into law, the new bill would outlaw wash sales, matched orders, combinations or pools for affecting the price of securities, the spreading of rumors involving price changes on the exchanges, dissemination of misleading information concerning securities, payments by manipulators for the spreading of information favorable to them, the pegging of security prices unless the Federal Trade Commission is given full details, corners in securities, the use of options and trading against options. Purchases on margin and borrowing on securities would be strictly regulated, while, except under certain conditions, short sales or stop-loss orders would be prohibited. Violation of any provision would be punishable by a fine of not more than $25,000 or ten years' imprisonment or both. If the violator were an exchange, a maximum fine of $500,000 could be imposed. Administration of the law would rest with the Federal Trade Commission.

A companion measure to stock exchange regulation took shape in the Securities Act passed at the special Congressional session of last year. From the moment of its enactment this law has been under fire, ostensibly because financiers regarded it as so rigid that even legitimate corporate financing is shut off. As a result, there have been frequent rumors that the act would be revised, rumors as often denied. Congressional sentiment was known to be opposed to revision, but at the beginning of February the administration was said to be leaning toward changes which would limit the liability of underwriters in damage suits. But on regulation of the exchanges and of security selling the legislators were in comparative agreement.

ST. LAWRENCE WATERWAY TREATY

Much more contentious was the St. Lawrence Waterway Treaty, which awaited Senate ratification. This treaty, negotiated during the Hoover administration, has President Roosevelt's outspoken support, which was expressed on Jan. 10 in a special message urging ratification. In Mr. Roosevelt's opinion, the power development contemplated by the project is no less important than the improved navigation facilities that once seemed to be the fundamental purpose of the treaty. Despite opposition, particularly by Senators from the Eastern seaboard, ratification before the end of the Congressional session appeared probable.

CRITICISM OF NRA

Because of the administration's control of Congress, less criticism of the NRA and the other emergency administrations has been heard in the halls of the Capitol than was anticipated. Senators Borah, Glass and Nye, however, have assailed the NRA codes as unfair to labor, the consumer and the small business man. Senator Nye asserted on Jan. 18, for example, that monopolists were the chief beneficiaries of the NRA. "If what seems to have been the policy of the NRA is continued," he said, "the plunderers may well adopt 'The Last Round-Up' as their theme song and trample under heel whatever remains of independent

business and make the consumer a mere slave to their interests."

Senator Nye's repeated attacks led to an announcement by General Johnson on Jan. 24 that a special board would be created in the NRA to hear complaints against the operation of industrial codes. Previously, President Roosevelt had issued an executive order permitting complainants against code operation to appeal to the Federal Trade Commission or to invoke the aid of the Department of Justice. Meanwhile, Congressional critics of the NRA were seeking to force an investigation of price-fixing in the codes now in effect. Outside Congress it was repeatedly charged that the codes were being violated in cases where violation suited the best interests of the business concerned.

Labor's complaints against the NRA were even louder than those reverberating through Congress. Collective bargaining, approved by the National Industrial Recovery Act, but not defined, has presented a source of trouble from the start. Does collective bargaining envisage the independent or the company union? Naturally, the American Federation of Labor opposes company unions, contending with a good deal of justification that under them collective bargaining is meaningless. On the other hand, employers contend—also with some justice—that there is nothing in the NIRA to suggest that a company union does not satisfy the requirement for recognition of collective bargaining. So far, statements by General Johnson and executive orders from the White House have failed to clarify the situation.

Furthermore, the National Labor Board and its regional boards, despite their solution of hundreds of labor disputes, have notably failed in instances where employers were strong enough to offer real resistance to the board's suggestions. The case of the Weirton Steel Company remains conspicuous in this regard. (See February CURRENT HISTORY, page 585.) Following a visit to the White House on Jan. 30 of labor representatives from the Weirton works, President Roosevelt ordered that the company's employes be polled to see whether a new election for labor representatives was desired. The poll would be held under the supervision of the National Labor Board. The company immediately took steps to obtain an injunction to test the government's power to force an election without regard for the management's terms. But the Weirton case is only one of those that has dragged along for too many months to satisfy labor.

The public works program embodied in the NIRA has moved ahead to a point where, early in January, its original appropriation of $3,300,000,000 had been exhausted. With funds allotted and contracts in the process of being let, the fillip to industry from PWA funds is certain to become increasingly apparent, until by late Spring or early Summer the peak is reached. Then we shall know whether the PWA has done anything to prime the pump of industry.

AID TO THE FARMERS

The Agricultural Adjustment Administration also has been the target for Congressional criticism. In reply Secretary Wallace on Jan. 18 outlined before the Senate Agriculture Committee the manifold activities of the AAA. He predicted that the farmers' income in 1934 would be increased $2,000,000,000 as a result of the government's policies. Moreover, under plans already approved, $761,000,000 will be turned over to the farmers during 1934 in the form of rental and benefit

payments. Throughout his testimony Mr. Wallace expressed optimism as to the outcome of the farm program, and asserted his belief that it has now been demonstrated that "farmers will cooperate in controlling their own production."

Wheat, cotton, corn and hogs have enjoyed the greatest prominence in the AAA activities; attempts are now being made to bring cattle within its scope by declaring them to be a basic commodity. Sugar is also to be included, as President Roosevelt in a special message on Feb. 8 urged that sugar be placed under the AAA in order that the industry might be rehabilitated, both at home and in Cuba.

Probably the most troublesome of all the many products and problems handled by the AAA are those of milk. Strikes have broken out in one milkshed after another as farmers have sought to obtain better prices for their product and to reduce the spread of the distributer. As all attempts to settle the question satisfactorily have failed, the AAA has adopted a new policy which Secretary Wallace set forth on Jan. 31. In outline the new policy involves fixing a price for the producer as high as is economically sound, leaving the price to the consumer to be fixed by competition. To enforce the payment of a fixed price, marketing agreements are being drawn up and all milk distributers are to be licensed by the AAA.

EMERGENCY LAW DECISION

The first Supreme Court decision on the constitutionality of the emergency legislation enacted by the States and the Federal Government was handed down on Jan. 8 when a Minnesota law for a moratorium on mortgage foreclosures was upheld. The majority opinion in this five-to-four decision was written by Chief Justice Hughes, who maintained that an "emergency may furnish the occasion for the exercise of power." Discussing the question of contract—the crux of the case—the Chief Justice said: "Where in earlier days it was thought that only the concerns of individuals or classes were involved and that those of the State itself were touched only remotely, it has later been found that the fundamental interests of the State are directly affected, and that the question is no longer merely that of one party to a contract as against another, but of the use of reasonable means to safeguard the economic structure upon which the good of all depends." This decision, though dealing only with the Minnesota law, was generally regarded as indicating that the NIRA and other similar acts would be upheld whenever they should be brought before the court.

BUSINESS AND EMPLOYMENT

The administration program has gained supporters in and out of Congress as a result of the upturn in business. The evidences of revival may not stand too close examination, but they present a superficial appearance of better times. *The New York Times* index of business activity remained relatively stable during January, falling from 79.6 for the week ended Dec. 30 to 76.3 for the week ended Jan. 13; it then rose again to 77.2 for the week ended Jan. 27. *The Annalist* index of commodity prices advanced from 102.4 for the week ended Jan. 2 to 104.8 for the week ended Jan. 30. Specific straws in the wind were afforded by reports such as that of the Ford Motor Company, which disclosed that production in January was the largest for that month since 1930. General improvement during recent months has been reflected in foreign

trade, which in 1933 showed the first rise over a previous year since 1929.

Improvement, however, has affected unemployment but little, since, according to William Green of the A. F. of L., approximately 10,826,000 were out of work during December. The Federal Emergency Relief Administration reported on Feb. 2 that 14,960,418 individuals were on public relief rolls in November, a total that must have been considerably increased when unemployment rose in December and the CWA enlisted individuals who had not been receiving direct public aid. So long as this army remains without work, it is hard to accept the idea of real business improvement. Even an upward tendency means little unless the jobless can begin to contribute to the nation's purchasing power.

THE RAILROAD PROBLEM

The railroads still present a disturbing feature of the general business situation, although the net operating income of the Class I roads was 15.6 per cent higher in December, 1933, than in the same month of 1932. The entire railroad problem was surveyed in a report by Joseph B. Eastman, Federal Railroad Coordinator, made public on Jan. 20. Though outlining a plan for eventual government ownership and operation of the roads, Mr. Eastman recommended continued private operation for the present with the help of government loans, regulation by the Interstate Commerce Commission and the coordinator, and reorganization of bankrupt roads.

Looking ahead, however, Mr. Eastman outlined a plan for the "United States Railways," purchased from the present owners through an exchange of securities, and managed by a board of public trustees free from political connections. The railroad corporation thus established would be run as any privately owned business, paying taxes to the Federal Government, meeting interest and sinking fund requirements and so on. Surplus earnings would be devoted to new equipment or to the retirement of indebtedness, according to the discretion of the trustees.

Other forms of transportation and communication may be subject to government regulation if measures now under discussion reach fruition. Before the House is a bill for regulation by the Interstate Commerce Commission of buses and trucks. The bill has been approved by the ICC. Regulation of telegraphs, telephones and radio by a single Federal agency has been urged in a recent report to the President by an interdepartmental committee. Supervision, according to the committee, would not end private ownership but would seek to reduce rates, prevent speculative management, extend services and so on.

BUSINESS EVILS

Investigations on Capitol Hill continued during January to disclose the less desirable aspects of American finance and business. The probe into the Detroit banking collapse brought to light the evils attendant upon holding company management, the lax leadership of Detroit banking and the failure to reveal the true condition of the banks in regular statements or stockholders' reports. Of a more sensational nature were the revelations before the Senate committee investigating ocean and air mail contracts.

The disclosures regarding air-mail contracts threatened to implicate several members of the Hoover administration, who, it was alleged, were not always disinterested in how mail contracts were awarded. While the government was to all intents and pur-

poses subsidizing air lines, officials of these lines, it was shown, were making tremendous profits through speculating in the stock of the companies and were receiving salaries hardly commensurate with the economic position of enterprises that supposedly could not survive without government help. Finally, according to testimony presented at the hearings, lobbies were maintained by the companies at Washington, and there was a close relationship between them and the government agencies purchasing planes.

Even before the Senate Committee's investigations were completed, President Roosevelt apparently believed that enough evidence of collusion in obtaining air-mail contracts had been uncovered for him to take decisive action. On Feb. 9 Postmaster General Farley annulled all air-mail contracts, effective at midnight on Feb. 19, and in an executive order the President directed that the War Department assume the duty of transporting mail by air. Opinion on the President's action was divided, for it was felt in some quarters that guilt had yet to be proved and that not all air companies, in any event, were guilty of the practice revealed by the Senate Committee. Moreover, it was alleged that the development of an important infant industry would be hampered if not stunted. On the other hand, the disclosures had been so sensational that it was difficult to see how the administration could avoid acting quickly and vigorously.

Meanwhile, the House Naval Affairs Committee had begun to inquire into the profits of manufacturers who had sold airplanes and equipment to the government during recent years. Some of these companies, according to naval accountants, showed profits of from 5 to 50 per cent. That the scandal might spread to the War Department also was suggested on Feb. 6, when a Federal grand jury began looking into the awarding of army contracts.

Although, with the exception of the War Department, these investigations were concerned with events in the Hoover administration, there have been ugly rumors for a long while that politics was a little too much in evidence in many matters in which the public had a direct interest. President Roosevelt gave substance to the rumors when he declared on Jan. 17 that no holder of high political office should practice law in the capital. Immediately Robert Jackson, secretary of the Democratic National Committee, resigned his position, and it became known that Frank C. Walker, treasurer of the committee, had likewise resigned. Previously J. Bruce Kremer of Montana and O. Max Gardner of North Carolina had withdrawn from the committee. The day following the President's move against the politico-lawyer system, Senator Vandenberg introduced a bill in Congress which would prohibit national committeemen from practicing before government departments.

PUERTO RICO'S GOVERNOR

Puerto Rico's much harassed Governor, Robert H. Gore, resigned on Jan. 12. Major Gen. Blanton Winship was immediately appointed to the post. General Winship served as Acting Secretary of State and Justice in Cuba from 1906 to 1909 during the American administration of the republic. He acquired further experience in Spanish-speaking countries when he was legal adviser to the Governor General of the Philippines from 1928 to 1931. The new Governor, at his inauguration on Feb. 5, emphasized the need of solving the island's grave economic problems.

Good Neighbors in Central America

By CHARLES W. HACKETT
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CENTRAL AMERICAN relations have been clouded for more than two years because treaty engagements between the various republics made it impossible for them to recognize the de facto régime of President Maximiliano Hernández Martínez of El Salvador. The United States, which was also pledged to abide by those engagements, was likewise debarred from extending its recognition. This anomalous situation was at last cleared up during January, and El Salvador is once more on terms of good fellowship with her neighbors and with the United States.

When General Martínez was named President of El Salvador by a military junta on Dec. 4, 1931, after a revolution had overthrown the constitutional régime of President Arturo Araujo, recognition of the new government was withheld by the four neighboring Central American countries and by the United States, in accordance with the Central American Treaty of Peace and Amity of 1923. This treaty, to which the five Central American republics were signatories, and the principle of which the United States pledged itself to follow in its dealings with those republics, set forth the policy of non-recognition of governments established by force. Blocked by this treaty from extending recognition to the Martínez government, the government of Costa Rica more than a year ago called upon the other signatory governments to join with it in terminating the 1923 pact. Without such action by at least three of the signatories, the treaty was due to be extended automatically for another ten-year period from Jan. 1, 1934. But only El Salvador joined Costa Rica in denouncing the treaty.

The government of Costa Rica now considered itself free to recognize the Martínez government and, accordingly, did so on Jan. 1. New Year's greetings, which were regarded as tacit recognition, were sent by President Jiménez of Costa Rica to President Martínez. On Jan. 23, Francisco Martínez Suárez formally presented his credentials to President Jiménez as the Minister of El Salvador.

The formal establishment of diplomatic relations between Costa Rica and El Salvador was followed by the recognition of the Martínez government by the three other Central American States on Jan. 25 and by the United States on Jan. 26. In announcing this step by the United States the Department of State said that it was taken "in view of the denunciation by El Salvador of the Treaty of Peace and Amity of 1923 and the recognition on Jan. 25 of the present Salvadorean régime by Nicaragua, Honduras and Guatemala—Costa Rica having previously denounced the treaty and extended recognition to El Salvador."

THE MEXICAN SIX-YEAR PLAN

One of the most important parts of Mexico's socialistic Six-Year Plan, the

minimum wage law, went into effect on Jan. 1. The law establishes a minimum wage of 1.50 pesos (about 42 cents at present) for Mexican workmen in general, but allows a higher minimum scale for workers in some industries—as, for example, 3 pesos for the employes of petroleum companies. Writs of injunction against this wage scale were secured on Jan. 6 at Tampico by the Aguila and Huasteca refining companies, the largest employers in the Tampico district. Several other businesses at Tampico, including a large clothing factory, closed their doors on Jan. 6 on the ground that they could not afford to pay the legal minimum wage. As a result of the law, more than 1,000 persons were reported to have been thrown out of work at Tampico during the week after the law became operative.

President Abelardo Rodríguez in a radio address over Mexico's first national radio hook-up on Jan. 9 defended the government's program for establishing minimum wages for Mexican workmen and made an appeal for its universal support. Explaining the 1.50 pesos a day wage for every laborer, he said that the government program was to treat every worker as the head of a family, as a member of a civilized community, who should not only be able to supply his family's bare material necessities, but should also be able to provide himself and his dependents with honest pleasures and spiritual necessities in accord with ideals of modern civilization. He declared that the theory of starvation wages and of employment to point of exhaustion had passed in Mexico, to be replaced by one of real pay, organization and skilled workmen. Greater consuming capacity for Mexican workmen, with its corollaries—greater production and better profits for investors—was predicted by the President as the outcome of the minimum wage law.

A law to "federalize" the electrical industry in Mexico was formally promulgated in the official newspaper, *El Diario Oficial,* on Jan. 20. Though passed by the national Congress two months earlier, the measure required the approval of a majority of the State Legislatures before going into effect. The purpose of the law is to enable the government to encourage the electrification of industry throughout the country and to study the possibilities of erecting new power plants so that every village will be provided with electricity.

General Lázaro Cárdenas, the Presidential nominee of the dominant National Revolutionary party, formally initiated his campaign on Jan. 15 with a speech at Toluca, capital of the State of Mexico. He created a sensation by warning foreign governments, bankers and oil companies not to interfere in the campaign. He said: "I want no foreign meddling, no foreign aid, as the National Revolutionary party is capable of directing its activities, which will culminate in the election to the Presidency, without outside assistance."

Another candidate for the Presidency in the July elections entered the field when the convention of the Radical party at Vera Cruz on Jan. 14 nominated former Governor Adalberto Tejeda of the State of Vera Cruz as its candidate. Radical party speakers launched sharp attacks on General Plutarco Elias Calles and other leaders of the National Revolutionary party, denouncing also several oppositionist leaders, including General Villareal, Luis Cabrera and Gilberto Valenzuela.

Political Unrest in South America

By HENRY GRATTAN DOYLE
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DESPITE some evidence of improved economic conditions in a number of the South American countries, political unrest broke out in several nations almost simultaneously with the close of the Montevideo Conference. In Argentina, Radical leaders involved in the revolts of Dec. 28 and 29, 1933, were exiled to Europe on Jan. 20, while forty-five other rebels were sent to the penal colony of Ushaia, at the southern tip of South America.

In Brazil, the uncertainty caused by the Cabinet crisis in December seemed to have ended when on Jan. 15 Dr. Osvaldo Aranha resumed his post as Finance Minister. Senhor Afranio de Mello Franco, the Foreign Minister, was invited to resume his post at the same time, but declined on the ground ill health. General Goes Monteiro, commander of the Federal forces during the Sao Paulo revolt of 1932, became Minister of War on Jan. 19, succeeding General Espirito Santo, who had also resigned.

In Chile, following the unsuccessful plot against the government which ended on Jan. 2, orders were issued for the arrest of former President Ibañez and other alleged revolutionary leaders, including a former Finance Minister, Pablo Ramírez. Colonel Ibañez is reported to be living near Mendoza, Argentina. A Fascist organization, called "storm troops" *(Tropas Nacistas de asalto)* has been organized in Chile by Fernando Ortúzar, who announced that the term Nacistas applied to them has nothing to do with the German Nazis, but is an abbreviation of the name of the party to which they belong—the National Socialists.

Organization of a "civil militia" by the Uruguayan Nationalist party was reported from Montevideo on Jan. 13. The purpose of the new force is to combat disloyalty, and its organization is apparently inspired by the discovery of revolutionary activities in the army, as the result of which sixty-six officers and enlisted men were court-martialed on Jan. 2.

A military plot in Peru caused the arrest of fourteen soldiers and a number of civilians on Jan. 8. It was announced on Jan. 25 that forty-nine Communists had also been arrested in connection with a plot for a revolutionary general strike. A transportation strike involving street-car, bus and taxicab operators began in Lima on Jan. 29, lasting for two days. Aprista activities caused the arrest of several members of the party on Feb. 1, and when on Feb. 5 the police tried to arrest Manuel Seoane, an Aprista leader, after a party rally at the football stadium in Lima, rioting took place in which several persons were wounded. The Apristas opened headquarters in Santiago, Chile, on Feb. 7, claiming that more than forty members of the party had been arrested in Lima and that party newspapers and social centres had been suppressed.

Venezuela also experienced unrest. Revolutionists were said to have landed in Trinidad after an unsuccess-

ful effort to seize the armed trading vessel Delta, while General Rafael Simón Urbina, whose melodramatic seizure of the American steamer Maracaibo and subsequent landing on the Venezuelan coast in June, 1929, resembled a soldier-of-fortune romance, was reported to be in Panama, perhaps engaged in directing activities of his supporters in Venezuela.

THE COLOMBIAN ELECTION

Dr. Alfonso López, leader of the Liberal party and chief of the Colombian delegation at Montevideo, was elected President of Colombia on Feb. 11. His only opponent was Eutiquio Timote, a full-blooded Indian, nominated by the Communists. The Conservative party, which controlled the Presidency for forty-four years before the election of President Olaya Herrera, a fusionist candidate, in 1930, made no nomination this year. Dr. López is almost solely responsible for the successful efforts to avoid bloodshed between his country and Peru over Leticia.

THE CHACO PROBLEM

The great international issue before the Montevideo Conference remains unsolved. Warfare in the Chaco continues, in spite of the efforts of the conference and the high hopes raised by the fruitless armistice which expired on Jan. 6. The course of the Chaco negotiations, to take a gloomy view, seems to indicate that nothing short of the strongest economic or even military sanctions would have been effective, and these the countries represented at the conference are naturally and justifiably loath or unwilling to use.

From the military point of view, Paraguay's position apparently has continued to improve. The Paraguayan War Office announced on Feb. 1 that its armies were advancing toward La China, about twenty-eight miles west of Fort Platanillos, on the military road from Fort Ballivián. Their ultimate objective was reported to be Cabezón, about twenty-three miles further west, whence a road leads to Fort Muñoz. Capture of Cabezón would give the Paraguayans control of all the available main roads in the Chaco except those along the flooded Pilcomayo River.

THE ORIENTE QUESTION

Recent emphasis upon the Leticia territorial dispute between Colombia and Peru, now in process of arbitration by the League of Nations Leticia Commission, has rather overshadowed the conflicting claims of Peru and Ecuador in the same sector, involving sovereignty over the Oriente region, an area of about 40,000 square miles lying east of the Andes and south and west of Leticia, and overlapping in part the territory assigned to Peru by the settlement of the Peruvian-Colombian frontier which ultimately caused the Leticia incident. In 1924 a protocol was signed under which the two countries were to seek a settlement by direct negotiation as soon as the Peruvian-Chilean boundary should be settled. Failing such settlement, the President of the United States was to be the arbitrator.

The solution of the Tacna-Arica dispute brought the Oriente question again to the fore. On Feb. 6 it was announced in Washington that President Roosevelt had consented to act as arbitrator at the request of the two disputants. Under the protocol, the representatives of the two countries are to meet in Washington, and if they fail to agree on a settlement the arbitral zone agreed upon by them is to be submitted to the President for decision.

Canada Charts Her Course

By J. BARTLET BREBNER
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THE Canadian Parliament convened on Jan. 25 to listen to the speech from the throne and other official announcements which outlined the government program for 1934-35. The Dominion is planning a large program of public works to relieve unemployment, both with and without provincial and municipal cooperation. Direct unemployment relief is to continue under the former arrangements, at least until June. The Western farmers are to be placated by the creation of an agricultural marketing board. A central bank is to be established and the Bank Act revised in the light of the recommendations of the Royal Commission. The Companies Act, which corresponds in some ways to the Sherman Anti-Trust Act, is also to be revised. The Excise Acts are to be altered and consolidated in order to meet present requirements more precisely and in particular to accommodate the discrepancies with American excise on spirituous beverages. As the government is faced by a heavy deficit for 1933-34, in spite of present rising revenues, the estimates for 1934-35 were reduced by $17,000,000.

Seemingly the Prime Minister was taking a leaf from President Roosevelt's book. The World Economic Conference had declared that a 25 per cent gold reserve was sufficient. But Canada has 40 per cent. Thus a reduction in the reserve or a devaluation of the Canadian dollar from 23.22 troy grains of gold to parity with the American would give the government funds for its expenditures on unemployment relief. At present, although the Canadian dollar brings over 99 cents in New York, its theoretical parity is $1.69.

Canadian mining production during 1933 rose 8.5 per cent over 1932 to a total of about $200,000,000. Of this, gold yielded about $84,000,000 because of its rise in price, although the profits in processing low-grade ores reduced the output from 3,446,000 ounces in 1932 to 2,945,000 in 1933. Canada exported $56,000,000 in gold, reckoned at the old price ($20.67), chiefly to London because of the open market there. At the beginning of February the opening of the market in the United States made exports to New York more profitable. Such a movement should aid Canadian exchange in New York, where the Canadian dollar, close to parity, has shown greater allegiance to the American dollar than to the pound sterling. Canada gained about $61,500,000 in international exchange payments during 1933.

Business and industry continued to improve during January, chiefly because of increased activity in basic industries like lumber and mining. The price and movement of wheat improved slightly in the last half of January. It was announced in New York on Jan. 20 that a test shipment of Canadian grain from New York had been accorded free entry to Great Britain; this was expected to revive from their moribund state what had

been important activities in Buffalo, along the Barge Canal and in the Port of New York.

External trade showed a steady increase over 1932 with no great alteration in the tendencies noted in recent months. The favorable balance of trade for 1933 was $136,254,128 and the total volume about $940,000,000.

CALM OVER BRITAIN

Interest in foreign affairs has somewhat diverted the attention of the British public from domestic developments. The situation in Austria, the attainment of some kind of European agreement on armaments, the Russo-Japanese crisis and the fluctuating relations of the pound, the dollar and the franc have continuously engaged the Cabinet. Because of differences of opinion and the fear of initiating action that would be difficult to carry through, British foreign policy has to a notable degree fallen back on the old formula of "Wait and See." Something of the same inertia has crept over domestic affairs, since they can seldom be viewed altogether apart from their international aspects.

The successive monthly rise in exports which has continued since June was barely maintained in December, and for the first time since July there was a decrease as compared with 1932. Moreover, the tariff and quota system produced some of its inevitable international difficulties. French refusal to extend to Great Britain the 1931 quotas which had been granted to Belgium and the United States evoked at the end of January an ultimatum threatening reprisals. Though France refused to give in, the British Government decided to withhold action because of the disturbed political situation in Paris. Some differences with the United States were resolved on Jan. 8 by raising the quota on American pork products from 6.3 to 7.6 per cent, in return for which the United States doubled the four months' quota on British spirituous liquors. Russo-Canadian competition for the British timber market in 1934 was compromised by permitting the importation of 350,000 standards [a standard equals 200 board feet] instead of the 435,000 for 1933 or the 450,000 tentatively agreed upon for 1934. No action was taken in the vexed matter of shipping subsidies. Although the government again promised full support against unfair foreign competition in textiles, action was postponed pending Anglo-Japanese negotiations.

Industry and retail trade seemed to be holding up and even making gains during December, but a rise of 164,989 in the total of unemployed (2,389,068) during January, while partly seasonal, came as a shock after a series of monthly reductions. The industrial scene indicated that the manufacture of capital goods, such as iron and steel, was still improving, as were automobiles, linen and woolen textiles, but that cotton was still sick and that building construction was languishing. Progress was being made toward the iron and steel cartel upon whose creation the iron and steel tariffs were conditional.

The confident estimates of December that there would be a large Treasury surplus at the end of the fiscal year on March 31 had to be modified during January, but the prospect was still bright enough for the advocacy of three different means of disposing of it: (1) To reduce the income tax from 5s to 4s 6d in the pound; (2) to restore the 1932 cuts in civil service salaries; (3) to increase naval, military and aerial armament. Naturally, however, the financial picture was obscured by the new gold valua-

tion of the dollar and the troubles of the French Government.

The pound fluctuated slightly in terms of gold and ranged between $4.90 and $5. This was too high a rate for stabilization with the dollar. London's calm during a period when many outsiders expected frantic efforts to keep down the pound in terms of dollars was founded on the shrewd forecast that Paris could be made to receive most of the shock in gold purchases and that British policy would be facilitated by the return to the United States of the "nervous capital" deposited in London for safety.

The Conservative party has not relished the recent unpopularity of the national government and would welcome a return to straight party lines, although there would be serious resentment if this were done without a general election. The Conservatives have been fortunate, however, in finding two good targets among their opponents—Sir Oswald Mosley head of the British Union of Fascists (see February CURRENT HISTORY, pages 540-547), and Sir Stafford Cripps, chief spokesman for the would-be "intellectual," or "university," leaders of Labor. The Rothermere press began a campaign in support of Mosley on Jan. 14, but the moderate audience which greeted him in Birmingham a week later encouraged his critics. The Beaverbrook press, which was thought to be sympathetic, turned against him, thereby continuing its rivalry with Lord Rothermere's papers.

Sir Stafford Cripps has for almost a year been outspoken in his belief that Labor, on regaining power, could achieve its ends only by quasi-dictatorial action, beginning with the capture of the financial machinery and proceeding to nationalization of basic industry and services. He startled the country on Jan. 6 by saying: "It will be necessary to deal with the House of Lords and the influence of the City of London. No doubt we shall have to overcome opposition from Buckingham Palace as well." This reflection on the accepted convention of the Crown's neutrality in politics and government he later said referred to the King's advisers and not to the King, but it gave the Conservatives a weapon against him. The Labor party again formally repudiated all dictatorial ambitions and reaffirmed its faith in democracy.

The recent decision by Mr. Justice Macnaghten that "it must not be presumed that the Crown has any right to intervene in a private suit or that the court is in any respect the servant of the Crown" sounded reminiscent of Coke and the conflict with the Stuarts, but it was actually a blunt and highly important reproof to the Home Office for presuming to interfere with the processes of civil justice. The details of the case were not important in themselves, but notice was served on the Executive and the bureaucracy that they had gone too far. "The judges of these courts," the judge said, "ever since the Act of Settlement, have been absolutely independent of the Crown."

IRELAND SELF-CONTAINED

President de Valera's government, after deciding against another general election, has committed itself to the attainment of economic self-sufficiency. A conference of Irish manufacturers in Dublin on Jan. 23 and 24 presented an opportunity to demonstrate the remarkable progress made under the direction of Sean Lemass, Minister of Industry and Commerce, in building up domestic industry. Many projects are under way and can be completed if Fianna Fail stays in power and can raise the necessary

capital through taxation and borrowing. Taxes are frequently uncollectible, however, and the last public loan was not completely subscribed.

Whether Irish purchasing power will be great enough to support the new industrial structure cannot be determined at present. That power depends on the success of Irish agriculture and the discovery of foreign markets for Irish goods. Agriculture has been hard hit by the loss of most of its British market and foresees quotas on milk products and potatoes as well as on cattle. Unquestionably capital is being steadily consumed in spite of export bounties. Foreign markets are hard to penetrate. After the disappointment of its emissaries in Berlin, the government sent John Leyden to Washington to try to arrange for a reciprocal trade agreement. James Maxton and John McGovern, Labor members of the British Parliament, visited Dublin in January for conversations with de Valera, presumably on the possibility of an Anglo-Irish settlement.

General O'Duffy and his lawyers pretty well won their bout with the government by demonstrating in the civil courts the falseness of the charges against him under the Public Safety Act. The General and his League of Youth gained in favor as a result, and large enthusiastic meetings of the United Ireland party were held. These successes led to widespread disorder as armed members of the Irish Republican Army interfered with meetings and tried to terrorize O'Duffy's supporters.

France Survives an Upheaval

By GILBERT CHINARD
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FRANCE has within recent weeks gone through one of the most acute and potentially dangerous political crises since the establishment of the Third Republic. Although at this writing a new Cabinet headed by ex-President Gaston Doumergue seems to be capable of assuring the maintenance of law and order, the situation is such that anything, not even excluding the overthrow of the democratic system of government, is possible, for France today is the prey of discontent and dissension at home and of anxieties and fears induced by an ever-growing feeling of insecurity in the face of increasing tension in international affairs.

The actual "affair" from which these new troubles sprung is to be viewed as little more than one of those minor incidents which so often give rise to great events. In this case the story begins with the activities of Alexander Stavisky, an international adventurer of Polish origin, known under different aliases and as Monsieur Alexandre to his familiars. He had succeeded in becoming in a somewhat unexplained manner director of the important municipal pawnshop of Bayonne. On Dec. 30 he was reported to have disappeared with an issue of spurious pawnshop bonds amounting to about 400,000,000 francs (currently $25,000,000). In

addition, he was said to have obtained the authorization to issue 160,000,000 francs ($9,920,000) of worthless Hungarian bonds to cover his previous operations. The manager of the pawnshop, Gustave Tissier, who had been recently proposed for the Legion of Honor, was immediately arrested, and rumors were circulated at once that Stavisky was being protected by higher officials. Arrested several times on charges of frauds amounting to more than 10,000,000 francs, he had never been brought to court and his lawyers had always managed to obtain the postponement of the case. As the brilliant Monsieur Alexandre, apparently with the protection of the police, he had gambled at Monte Carlo and pursued his operations in different cities of France.

While the police were vainly looking for Stavisky, it was alleged by several newspapers that Albert Dalimier, Minister of Public Works in the Herriot Cabinet and Minister of Colonies in the Chautemps Cabinet, had issued a circular advising insurance companies to invest in pawnshop bonds. Premier Chautemps maintained that Dalimier had acted in good faith, that the incriminated circular was simply a matter of routine, and that he was energetically pressing the search for Stavisky. For several days the police were unsuccessful, and in Parliament several of the political leaders, including André Tardieu, expressed their intention of bringing the matter to a head and of demanding the resignation of the Cabinet. The press and the public in the meantime had waxed sarcastic at the failure of the police to lay their hands on the fugitive and definitely brought charges of corruption against the whole administration of justice in France.

When the Chamber reconvened after the Christmas recess, on Jan. 9, Premier Chautemps had accepted the resignation of Dalimier and appointed in his place Labor Minister Lucien Lamoureux. The first meeting, at which routine matters were discussed and the former President of the Chamber, Ferdinand Buisson, was re-elected, took place while around the Chamber of Deputies about 1,000 Camelots du Roi (King's henchmen) were heckling the police, breaking lamp posts and singing derisive songs. On the same day Stavisky, who had been finally discovered in a villa near Chamonix, at the foot of Mont Blanc, shot himself when the police demanded admission to his room, and died without recovering consciousness a few hours later. Rumors were at once circulated that he had been shot by the police to prevent revelations regarding his accomplices and the protection he had enjoyed. Stavisky's lawyers declared that he had had an interview with Jean Chiappe, the Prefect of Police of Paris. However, a letter indicating Stavisky's intention to commit suicide was found in his room, and Mme. Stavisky declared that she was convinced her husband had killed himself.

On the next day, Jan. 10, while Premier Chautemps was fighting for his Ministerial existence in the Chamber of Deputies, continuous rioting took place on the adjacent boulevards. The Premier boldly retorted to his opponents that a conspiracy to overthrow the parliamentary régime had been uncovered, that large quantities of pamphlets calling for a coup d'état had been printed for distribution to the people of Paris. The same day the Royalist journal, *L'Action Française,* declared that the French pretender, the Duc de Guise, had conferred at his residence in Belgium with the "regional directors" and had given "in-

structions made necessary by the grave situation in France." At the same time Premier Chautemps denounced the royalist press, defended the parliamentary system, promised a thorough reorganization of the police and, after a stormy debate lasting more than twelve hours, during which he was violently attacked by M. Ybarnegaray, the Basque Deputy, won a vote of confidence by 360 votes to 229, the Chamber refusing to appoint a special commission of investigation and affirming its confidence in the measures taken by the government.

Apparently the Cabinet had weathered the storm, while the public after the excitement of the first few days seemed to tire of the campaign of mudslinging going on in the conservative press. The Stavisky scandal, however, again caused tumult when, during the debate in the Chamber on the afternoon of Jan. 18, Deputy Henriot occupied the tribune for four hours, hurling accusations at several members of the Cabinet and denouncing particularly Minister of Justice Raynaldy. In the lobby of the Chamber Anatole de Monzie, the Minister of Education, and Deputy Henriot came to blows and Désiré Ferry, director of the newspaper *La Liberté,* was struck in the face by Joseph La Grosillière, Deputy from Martinique. During the next two days rioting spread throughout Paris. The Royalists engaged the police around the Chamber of Deputies, invaded the Palais de Justice and paraded along the Boulevard Saint-Michel. The Communist rioting was far more serious; windows were smashed and goods destroyed in several stores around the Place de la Bastille, while along the Boulevard Sebastopol crowds of municipal and State employes, trying to reach the City Hall in order to protest against the pay cuts decreed by the Chautemps budget, proved almost too much for the police and the mounted Republican guards.

Premier Chautemps, on Jan. 23, was able to answer the accusations of Deputy Henriot to the satisfaction of the Chamber, declaring that the magistrates were doing their full duty, that the investigation of the Stavisky scandals was proceeding normally and that prosecutions would be pressed without fear or favor. He reproached his opponents with attempting to discredit the parliamentary régime and finally received a vote of confidence of 367 to 201. But the strength of the Cabinet indicated by this vote was not real. It was tacitly understood that M. Raynaldy would have to resign in order to defend himself against the embarrassing accusations launched by Deputy Henriot, who had charged him with being formerly a director in one of the companies formed by one Sacazan, who was subsequently found to be an associate of Stavisky, and with having received as a "gift" a large part of the number of shares necessary to become a director.

Meanwhile, public opinion was becoming increasingly restless because of the failure to determine the responsibilities for the railroad disaster in which 200 persons were killed at Lagny on Dec. 23. The nervousness was brought to a still higher pitch by the wreck of the Emerald, France's newest and fastest commercial plane, on Jan. 15, when Governor Pasquier of Indo-China, who had been hastily summoned to Paris, lost his life with ten other passengers.

The clamor for a complete housecleaning and reorganization of the government steadily grew and, faced by ever more insistent questioning in Parliament and by increasing riots in the streets of Paris, Premier Chau-

temps declared himself unable to accomplish his mission "in the present state of disturbance of the public and in the midst of a political agitation which was used as a pretext for attacks against the régime," and on Jan. 27 handed his resignation to the President of the Republic without coming a last time before the Chamber of Deputies to defend his policies. The Cabinet had lasted exactly two months, M. Chautemps having become Premier on Nov. 27 after the Sarraut Ministry had fallen on an issue of fiscal policy.

As the Chautemps Cabinet came to an end, outside on the boulevards around the Opéra and the Madeleine rioters had assembled and were singing the "Marseillaise" and shouting "Down with Parliament." In the morning *L'Action Française* had ordered its young men to get ready and, joined by members of the taxpayers' association, they repeatedly attempted to break through the lines of policemen and Republican guards. Trees were damaged, café tables, siphons and glasses were used as missiles as the police charged along the boulevards. Amusingly enough the rioters became hungry toward dinner time and adjourned about 6 P. M., but the battle was renewed in the late evening and new forces were added when rougher elements arrived from the Montmartre section. The rioting ceased temporarily when the news of the resignation of the Cabinet became known. Of the 400 young men who were arrested only 28 were detained. They were accused of damaging property or assaulting the police; 29 policemen had been injured and 3 had to be taken to the hospital.

The selection of a new Cabinet rested with the President of the Republic. In order to comply with a demand often expressed during recent months for a Cabinet of national union, President Lebrun asked his predecessor, Gaston Doumergue, to form a new government. M. Doumergue refused and M. Lebrun turned to Jules Jeanneney, President of the Senate, but he refused for reasons of health. Ferdinand Buisson, President of the Chamber, also refused on the ground that being nominally a member of the Socialist party he could not obtain the support of the Centre. Edouard Herriot, though consulted, was not invited to take charge, and finally Edouard Daladier, who, in January, 1933, had formed a Cabinet which lasted until October of the same year, accepted the task of forming a new government. This he did on Jan. 30, the personnel being as follows: Premier and Foreign Minister, Edouard Daladier; Justice, Eugène Penancier; Finance and Budget, François Pietri; Interior, Eugène Frot; War and National Defense, Lieut. Col. Fabry; Navy, Louis Chappedelaine; Labor, Jean Valadier; Public Works, Joseph Paganon; Air, Pierre Cot; Pensions, Hippolyte Ducos; Post and Telegraphs, Paul Bernier; Agriculture, Henri Queuille; Merchant Marine, Guy de la Chambre; Public Health, Emile Lisbonne; Colonies, Henri de Jouvenel.

The composition of the Cabinet was vehemently criticized. Franklin Bouillon, a leader of the Radical Socialist party, declared that he would interpellate on "that new scandal"; Colonel Fabry was excluded from the Tardieu party and the friends of M. Herriot were more than cold toward the new Premier. Even before appearing before the Chamber to explain his program, M. Daladier, who enjoys in Parliament the reputation of a "strong man," decided to act and dismissed a number of prominent government officials.

Among them was the Prefect of Po-

lice, Jean Chiappe, who was highly popular with the people of Paris and who boasted of "a skillful hand in a velvet glove." His very popularity rendered him somewhat suspect, and fear had been expressed that the police force was more loyal to its chief than to the government. Up to this time, however, it had not seemed possible to dislodge him and he had been accused of being "a State within a State." He refused the post of Resident General of Morocco, which was offered to him, and announced that he would enter active politics and run for a seat in the Chamber as Deputy from Paris. M. Sibour, former Prefect of the Seine, was appointed Prefect of Police.

Pursuing his work of cleaning up, M. Daladier then asked Chief Attorney General Pressard, brother-in-law of former Premier Chautemps, to submit his resignation. Pressard was held technically responsible for the nineteen adjournments of the Stavisky case. At the same time ten high police or judicial officials were hit. An amusing consequence of the shake-up was the dismissal of Emile Fabre, Director of the Comédie Française, the French National Theatre, who had given recently Shakespeare's play *Coriolanus* and who was held responsible for the application which had been made to the present situation of the speeches in the play denouncing the Roman Senate. M. Thome, former Director of the secret service of the Paris Police and a poet, was appointed in his place. Subsequently, however, Fabre was reinstated and the performance of *Coriolanus* authorized.

Disapproving of Chiappe's dismissal, War Minister Jean Fabry, Finance Minister François Pietri and Minister of Technical Education Gustave Doussain resigned from the four-day-old Cabinet. Yet their defection seemed rather to strengthen its position. Joseph Paul-Boncour took the portfolio of War Minister which he had already held and Paul Marchandeau became Minister of the Budget, while Alexis Jaubert succeeded M. Doussain. The young rioters of the Royalist party, who considered M. Chiappe as a friend, seized this opportunity to swarm around the Opéra and to rally at the cry of "Long live Chiappe" and "Long live the police," while an association of war veterans, the Croix de Feu, gathered in front of the President's residence and had to be scattered by mounted Republican guards.

Feeling that the police might be unable to cope with the situation on Feb. 6, when the new Cabinet was to appear before the Chamber, M. Daladier ordered 3,000 troops to Paris, while machine-guns moved through the streets, which were patrolled by Spahis, the famous African cavalry. Several thousand police were massed around the Elysée, the President's residence. It was generally felt that the new Premier, although facing a fierce fight in the Chamber, had the situation well in hand.

But on Tuesday, Feb. 6, one of the most tragic episodes in the history of the Third Republic was to stir Paris and the whole of France so deeply that for a few hours it seemed as if civil war was imminent. According to schedule, the Chamber met in the afternoon to hear a Ministerial declaration. Fearing a repetition of the former agitation in the adjacent streets, Premier Daladier and Minister of the Interior Eugène Frot had stationed troops with machine-guns on the steps of the Chamber and placed a heavy guard on the bridge to prevent any crowd that might gather on the Place de la Concorde

on the other side of the river from crossing and beating against the walls of the Palais Bourbon, where the Chamber meets.

The new Premier read his declaration in the midst of a tumult unprecedented even in the troublous annals of the Chamber. He pleaded for support from the Radical-Socialists "in order to prevent a civil war" and lest "the Republic be forced to abdicate." Meanwhile Socialists, Communists and members of the Right engaged in free-for-all fights. The confusion increased when, after receiving a vote of confidence by 300 to 217, M. Daladier refused to answer questions from the floor. When the tumult grew to such height that the Opposition speakers themselves could not be heard above the deafening din, the Premier asked for an adjournment until the following Thursday and was supported by a vote of 360 to 120. Apparently the government had won, and yet it was soon evident that it had lost.

While the Chamber was in session, the crowd on the Place de la Concorde had grown unmanageable. In the morning *L'Action Française* had invited Royalist sympathizers to gather for a demonstration at the Palais Bourbon "to oppose the thieves and this abject régime." Similar announcements had appeared in the *Echo de Paris,* a Nationalist organ, which called upon the Patriotic Youth and the Croix de Feu organizations to assemble before the City Hall. On the other hand the *Populaire,* the organ of the Unified Socialists, had invited the members of the party "to defend their organization against the offensive launched by the forces of fascism"; and *L'Humanité,* the Communist organ, appealed for "direct action in factory and street against the Fascists."

The crowd which assembled on the Place de la Concorde in the afternoon and grew larger in the evening was not at first in an ugly mood. It was made up of young Camelots du Roi, war veterans, idlers attracted merely by curiosity and also members of those unruly and criminal elements which usually live hidden lives in the underworld. As the evening progressed part of the crowd tried to force its way through the Champs Elysées toward the President's Palace and, using the same tactics as during the preceding days, erected barricades along the wide avenue to stop cavalry charges. Some rioters attempted to set fire to the Ministry of Marine building on the Place de la Concorde and were only dispersed after the police fired pistol shots into the mob. Meanwhile another part of the crowd was making an effort to cross the bridge leading to the Chamber of Deputies which was protected by police and Republican guards, with machine guns mounted on the steps of the building.

While the mob was milling about and fighting the police, the floodlights on the Place de la Concorde suddenly went out and added to the confusion. It was then, it seems, that machine guns were fired and bullets spattered on the façade of the Hotel Crillon and the American Embassy, which was protected by its heavy iron shutters. At the same time sporadic riots broke out in different parts of the city—at the City Hall, on the Boulevard Saint-Germain, around the City Hall and in the Place de l'Opéra. The number of casualties is still undetermined; official estimates placed the dead at sixteen and the wounded at over 500, including 180 civilians, 180 police, 130 mounted guards and 100 gendarmes. At once it was evident that the Daladier Cabinet, in spite of victory in the Chamber, had lost on the boulevards. Next morning (Feb.

7), infuriated veterans and taxpayers turned out and gathered in front of the official buildings without any organization, while hoodlums in several places began to turn over and set fire to taxicabs, buses and news stands.

In the meantime a delegation of Opposition leaders, including André Tardieu and Pierre Laval, called on President Lebrun to demand the immediate resignation of the Cabinet. They pointed out that the gravest disorders were likely if Premier Daladier and Minister of the Interior Eugène Frot, technically responsible as head of the government police, remained in office a day longer. The Ministers did not call on the President to submit their resignations according to the custom. Acting on their behalf and without being able to hold a Cabinet meeting because of the threatening crowds, M. Daladier presented his and their resignations to President Lebrun.

The news of the Cabinet's resignation brought about comparative quiet, and a kind of tacit armistice was declared on both sides. Again it was the duty of President Lebrun to name a new Cabinet. Former Premiers and political leaders whom he consulted agreed with him that a new effort should be made to induce former President Gaston Doumergue to take charge of the dangerous situation. It was felt that he alone had enough authority to calm the country and bring about political harmony. It was noted that on Jan. 28, in an interview given to the press, M. Doumergue had unequivocally indicated his views regarding necessary reforms. His words seem to sum up in a moderate but impressive way the attitude of the majority of the people: "The country nowadays cannot understand what the Deputies are doing. Unemployment is on the increase in France; a wheat crisis is sweeping the country; business suffers; foreign policy and other urgent problems remain unsolved. Cabinet Ministers no longer have the opportunity to direct in person the governmental departments of which they are in charge. They are kept busy in the Chamber of Deputies, morning, noon and night, and so long as they do not direct matters nothing worth while will be accomplished."

The necessity to act promptly was even more acutely felt when, during the day of Feb. 7, reports from the provinces indicated that the trouble had spread to the large cities of France. Serious disorders were reported from Lyons and more or less serious rioting occurred in Nantes, Bordeaux, Marseilles, Lille and even the quiet city of Poitiers. Appealed to by telephone by the chief political leaders of France, M. Doumergue consented on the same day to come to Paris on his own conditions—namely, that he have full liberty with regard to his program and his choice of colleagues. It was understood that he would form a coalition Cabinet in which several former Premiers would be included. Acclaimed on all sides as a "national savior," the veteran ex-President arrived in Paris on Feb. 8 and proceeded at once to form a Cabinet.

One of the most remarkable combinations that France has ever had, the new Cabinet included representatives of almost every party from the extreme Right to the Neo-Socialists; only the Royalists, Socialists and Communists were excluded. Six of the Ministers had previously held office as Premier—Doumergue, Herriot, Tardieu, Barthou, Laval and Sarraut, while another was Marshal Petain, the defender of Verdun. Premier Doumergue, M. Herriot and M. Tardieu, to be free from adminis-

trative duties, did not assume charge of any department. The personnel of the Cabinet was as follows:

GASTON DOUMERGUE—Premier.
HENRY CHERON—Vice Premier and Justice.
EDOUARD HERRIOT—State.
ANDRE TARDIEU—State.
JEAN LOUIS BARTHOU—Foreign Affairs.
ALBERT PIERRE SARRAUT—Interior.
Marshal PETAIN — National Defense and War.
FRANCOIS PIETRI—Marine.
LOUIS GERMAIN-MARTIN—Finance and Budget.
HENRI QUEUILLE—Agriculture.
PIERRE LAVAL—Colonies.
AIME BERTHOD—Education.
LUCIEN LAMOUREUX—Commerce.
ANDRE MALLARME—Posts and Telegraphs.
General VICTOR DENAIN—Air.
PIERRE-ETIENNE FLANDIN—Public Works.
LOUIS MARIN—Public Health.
ADRIEN MARQUET—Labor.
GEORGES RIVOLLET—Pensions.
WILLIAM BERTRAND—Merchant Marine.

The advent of M. Doumergue caused almost instantaneous appeasement. During the preceding three days Paris had made a gallant effort to carry on business as usual, even if in several quarters many shop windows were broken; but the Bourse never closed and the franc remained remarkably firm. The only impending trouble which still seriously disturbed the minds of the peace-loving was the call by the General Federation of Labor for a general strike on Monday, Feb. 12, as a warning against any attempt to set up a Fascist dictatorship. The strike, however, passed off almost without incident. Many million workers throughout the country stopped work, and public services were halted for periods varying from a minute to twenty-four hours. Some rioting occurred in a couple of Paris working-class suburbs. The principal feature of the day was the mass demonstration of Communists and Socialists, which took place without disturbance.

Premier Doumergue has a tremendous task before him. It cannot be denied that a spirit of restlessness and discontent now pervades France and that the recent events have helped to make many grievances more clear-cut. At first the rioters represented only a small minority in Paris and had no backing from any seriously organized political party. The French people have since become insistent upon a complete overhauling of the administrative and judicial machinery. Behind the crisis are certainly important economic factors, but it is fully realized outside the Chamber of Deputies, and it is to be hoped by the Deputies themselves, that political stability is essential to economic recovery.

BELGIAN CABINET CHANGES

The position of the Belgian Cabinet at the beginning of the month of January was regarded as precarious on account of the differences among its members over the proposal to reappoint officials who had been dismissed for unpatriotic conduct during the war. The King, however, suggested that a commission be appointed to examine the doubtful cases and that the findings of the commission be made public. The question would affect about seventy-four employes out of the 400 who had been forced out of the service. This solution was considered as satisfactory, but on Jan. 10 Prime Minister de Brocqueville had to undertake a reorganization of the Cabinet owing to the resignation of Viscount Poullet as Minister of the Interior. The new Minister, M. Pierlot, is a Catholic Senator. M. Carton de Wiart, Minister of Social Welfare, was appointed permanent Belgian delegate to the League of Nations and was succeeded by M. Van Cauwelaert, an Antwerp Deputy. At a caucus of members of Parliament on Jan. 17 Liberal Deputy Marquet proposed to take advantage of the currency situation by issuing a 10,000,000,000 franc loan in order to pay Belgium's debt to the United States.

Hitler Wipes Out State Rights

By SIDNEY B. FAY
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ON Jan. 30, the first anniversary of Hitler's assumption of the Chancellorship, the German Reichstag was summoned to listen to the leader's plan for constitutional reform and for further unification of the individual German States. After Hitler's announcement, the Reichstag passed unanimously, in the three required readings, an act transferring the sovereign powers of the States to the Federal Government. The legislative functions of the States, as vested in their local Diets, were finally abolished, the Diets themselves having been practically abolished last October. Thus the States are brought under the complete authority of the Reich. The Federal Governors, appointed over the States by the Reich, were placed under the jurisdiction of the Reich's Minister of the Interior.

The working out of the details of a new unified constitution, which will replace the Weimar Federal Constitution, was delegated to experts in the Ministry of the Interior. A feature of the altered organic law will probably be a redrawing of the map of Germany, by which the boundaries and even the names of many of the present States will cease to exist. Dr. Frick, Minister of the Interior, declared on Jan. 31 that it was the task of the present generation to create, at last, a national unified Reich such as even Bismarck had been unable to bring about. "Bismarck's Second Reich did not interfere with the frontiers of the individual States. This was the one great error of the Second Reich. In the new Germany there is no place for the Federal States in the old sense, or for the borders which they had." It would be useless, he said, for the Third Reich to cling for sentimental reasons to institutions which were evolved at different times and under different conditions. Such institutions might even have a pernicious effect nowadays "as a stimulus to monarchist party aims which are inimical to the people."

The ex-Kaiser's seventy-fifth birthday was celebrated at Doorn on Jan. 27 with the receipt of thousands of gifts and telegrams of congratulation. But in Nazi Germany little or no notice was taken of the event. No flag was flown in the exile's honor. No newspaper printed any account of the Doorn celebration. Even the ex-Kaiser's generous gesture of sending back to Germany a birthday fund raised by his admirers with the request that it be devoted to relieving the suffering of those overlooked by the Nazi Winter Help agencies was deeply resented by the Nazi press. The word appeared to have gone forth from Dr. Goebbels that no revival of monarchist sentiment or "counter-revolution" was to be tolerated. The daily *Voelkischer Beobachter* declared: "We have no use for a monarchy like that preceding 1914."

MUNICIPAL "LEADERSHIP"

New laws decreed in Prussia by Premier Goering on Jan. 8 intro-

duced the "leadership principle" into every municipality, and undid the work of Freiherr vom Stein, who provided in 1808 for the election of the heads of the towns by the citizens. Henceforth the Prussian Minister of the Interior or subordinate officials under his authority will name the burgomasters of the cities and the presidents of the villages.

A semblance of city and village councils is retained, but the citizens have no voice in their selection. Members will be appointed by the Ministry in agreement with the local National Socialist leaders, and will have only advisory functions, the officially selected town executives having full power to make all decisions and bearing sole responsibility for them.

GERMAN CHURCH CONFLICT

The conflict between the Nazi Reich Bishop Mueller and the leaders of the moderate Pastors' Emergency League, which has grown to a membership of 6,000, continued to disturb the religious peace of all Protestant Germany during January. Bishop Mueller, in a desperate effort to scotch the widening rebellion against his régime, on Jan. 6 sought to impose a dictatorship over the Evangelical Church.

Hundreds of Protestant ministers replied in defiance from their pulpits the next day. They announced to their congregations that they could no longer repose in Dr. Mueller the confidence required by his high office. In justifying their refusal to obey his orders they appealed to the clause in the Augsburg Confession of 1530 which enjoins disobedience to Bishops when they preach or ordain what is opposed to the Gospel. The pastors' manifesto ended by charging that the recently formed united church organization had broken down; that the new Reich Church Cabinet, whose members had resigned, was not functioning; that a powerful movement had been allowed to make paganism its foundation; and that the National Synod had lost the confidence of a large part of the church's members. The manifesto was read again the following Sunday by hundreds of pastors who had not been able to secure a copy of it on Jan. 7.

Meanwhile, the Prussian secret police raided the homes of local secretaries of the Pastors' Emergency League and confiscated its membership lists. Bishop Mueller appeared to have the backing of General Goering, if not of Chancellor Hitler and President von Hindenburg. On Jan. 27 Dr. Mueller went a step further and suspended from office the Rev. Martin Niemoller, a Berlin clergyman who had been active in forming the Pastors' Emergency League and in defying Nazi control of the church. A score of like-minded pastors were also suspended. Next day, when Dr. Niemoller disregarded the suspension order and proceeded to enter his pulpit as usual on Sunday, he was taken into custody by the Prussian political police, subjected to an extended examination and released only after influential friends, among them a member of the Reich Cabinet, had intervened in his behalf. He was ordered to report daily to the police, however, and was to remain technically under arrest until the charges against him had been sifted. His personal papers and letters were also confiscated.

But this internal church conflict, which causes bitter division among the people whom Hitler desires to unite in peace and concord, appears to have been very distasteful to the Chancellor and to many other high Nazi officials, as well as to President von Hindenburg himself. Accordingly, on Jan. 31 the Chancellor ordered that the po-

lice were no longer to interfere in the strife, and that church authorities should not call on the police or enlist the help of governmental agencies.

NEW GERMAN LABOR CODE

The terms of the eagerly awaited Law for the Organization of National Labor were announced on Jan. 16. The new code will go into effect on May 1 next, the first anniversary of the Day of German Labor. It applies to industry the Nazi political principle of "leadership," and provides for the protection of the interests of the workers through "Confidential Councils," "Trustees of Labor," and "Social Honor Courts." Private initiative in business and industry is to remain, but it is to be subjected, if necessary, to supervision and control by the State.

In each enterprise with over twenty employes the employer becomes the "leader," with all the sense of responsibility which that term implies in Nazi idealism. The employes become the "followers." There will be a Confidential Council to give advice on running the concern, working conditions, and the maintenance of efficiency and a spirit of cooperation and comradeship. Its members will be selected every March by the leader-employer in consultation with the head of the Nazi cell organization. If the selection is not satisfactory to the "followers" they can appeal to the Trustee of Labor for a new selection, or if any measures of the leader-employer are objectionable to a majority of the Confidential Council the latter may also appeal to the Trustee of Labor, who will investigate the question and by the authority of the State settle it in a fair and equitable fashion.

The Trustees of Labor, of whom there will probably be thirteen, are appointed directly by Chancellor Hitler, and will have jurisdiction over geographical districts, not over special industries. Their task is the maintenance of industrial peace by preventing the capitalist from encroaching upon the interests of the worker, and vice versa. The Trustees of Labor will also watch over the activities of the Confidential Councils, and interfere in cases where large dismissals of men are contemplated, being empowered to postpone dismissals for four weeks and even to prolong the postponement for two months. They will draw up general directions for the fixing of wages and see that wage arrangements are observed.

The most novel feature of the entire Labor Code is the institution of Courts of Social Honor. If people in control of concerns exploit their workers or offend their honor, if employes endanger social peace by provocative behavior or undue interference in the running of the business, if the workers make frivolous complaints to the Trustees, or if workers betray secrets learned in the Confidential Councils, a breach of social honor has been committed and will be dealt with on motion of the Trustee by the chairman of the Honor Court. If the chairman cannot decide whether an offense has been committed, he may summon his court—consisting of himself (a legal official), an employer and a "confidential man" chosen from lists drawn up by the Labor Front (the National Socialist labor union in which were coordinated several months ago all the members of the former trade unions).

This new Labor Code presents a very interesting attempt to deal with the labor problem. By some critics it is feared that it will hand the working classes over to the mercies of big

business. On the other hand, behind the Trustee stands the State and the all-powerful National Socialist party, of which the great Left wing is composed of workers who have been promised that the "socialism" in National Socialism shall be made real.

SAAR PLEBISCITE QUESTION

By the Treaty of Versailles the Saar territory, with its 800,000 inhabitants, rich coal mines and iron and pottery industries, was placed in the hands of a Governing Commission of the League of Nations. After fifteen years—that is, in 1935—the population was to vote its choice of three propositions: (1) To remain under the League of Nations, (2) to unite with France, (3) to reunite with Germany.

The population of the Saar is overwhelmingly German. Up to a year ago there was no doubt in the minds of Germans that the plebiscite would result in a sweeping German victory. Frenchmen also had generally reconciled themselves to such a result. But during the past year, with the triumph of Hitlerism in Germany, there have been some changes in the situation, and the outcome of the plebiscite is believed by many persons, especially outside Germany, to be less certain and complete.

In the first place, the Saar population is predominantly Roman Catholic, and has seen with alarm and disapproval the Nazi suppression of the Roman Catholic Centre party in the Reich and the domination which the State has sought to exercise over the church. In the second place, the Socialists and Communists are strong in the Saar. If the territory should be reunited with Germany they fear that they would be as relentlessly crushed as were their fellows in the Reich. In the third place, a large number of refugees from Germany fled to the Saar and settled there. Finally, the pro-French partisans, acting in cooperation with Saar Socialists like Max Braun, have again become active in trying to persuade the inhabitants of the economic advantages of having the territory remain under the League of Nations.

To improve the diplomatic relations between France and Germany, Vice Chancellor von Papen proposed early in January that the plebiscite should be abandoned and that France and Germany enter into negotiations for turning the Saar back to Germany immediately. The same proposal was repeated by Chancellor Hitler to the French Ambassador in Berlin, on the basis that the territory was sure in any case to vote in favor of union with Germany, that campaigning preliminary to the plebiscite would only stir up more bad feeling, and that the result of the plebiscite would certainly leave a soreness on the part of the defeated side. There is much to be said in favor of these explanations. But the French rejected them. The open reason given was that the plebiscite had been stipulated in the Treaty of Versailles and that this stipulation should be carried out. The French have consistently upheld the treaty and see no reason to abandon it in this matter. Moreover, some of the French may hope that with the changed conditions obtaining in the Saar since Hitler came to power, a plebiscite might result in favor of the territory remaining under the League of Nations, or, failing that, that a plebiscite might produce results which would make possible a partition of the district between France and Germany.

Since the French rejected the German proposal for settling the question without a plebiscite, the problem of making proper arrangements to ensure a peaceful and impartial voting

a year hence came before the Council of the League of Nations at its Geneva meeting in January. Germany was invited to attend and take part in making the arrangements, in spite of her preliminary withdrawal from the League last October. But Germany declined. The Council then listened, behind closed doors as well as in public sessions, to long discussions about the state of affairs in the Saar and what ought to be done to secure a fair plebiscite. Pro-German memorials from Saar organizations set forth grievances due to the alleged pro-French attitude of the Governing Commission in the matter of schools, tariffs, the appointment of officials, and the desire for a strong "police force" of 3,000 or 4,000 men. Anti-German organizations, on the other hand, sent counter-memorials and agents complaining of the alleged terroristic activities of German Nazis and their sympathizers. President Knox of the Governing Commission submitted a vigorous report (which the German member of the Commission refused to sign) declaring that Nazi terrorism had increased since his last quarterly report and charging the Nazis with organizing a disguised administration of the territory alongside the legal government represented by the Commission.

The Council of the League finally decided, on Jan. 20, to appoint a committee, consisting of the representatives of Italy, Spain and Argentina, to make a report at its May meeting.

Civil War in Austria

CIVIL war broke out in Austria on Feb. 12 as a result of the decision of the Dollfuss government to suppress the Social Democratic party. At this writing many hundreds had been killed in the fighting in the working-class districts of Vienna and in other cities, and the large municipal apartment houses, which had been built as part of the Socialist program in Vienna, had been subjected to artillery attacks.

Dispatches from Vienna on Feb. 11 reported that Chancellor Dollfuss had reached an agreement with the leaders of the Patriotic Front and that the dissolution of all political parties had been decided on, as demanded by the Fascist Heimwehr, an organization distinct from the Austrian Nazis. Prince Starhemberg, the leader of the Heimwehr, in an interview given to a Budapest newspaper stated that democracy in Austria was to be ended once and for all, that to clear the Socialists out of the City Hall of Vienna was first of all the Chancellor's job, and that if the Chancellor failed to do it the Heimwehr would.

Despite what was known in political circles of the intentions of the Chancellor and the Heimwehr, the outbreak of hostilities took the world by surprise. The trouble started at Linz on the morning of Feb. 12, when police and Heimwehr auxiliaries raided the Social Democrat headquarters there and were met by armed resistance. Several men were killed and many seriously wounded. The Linz Social Democrats thereupon proclaimed a general strike.

As soon as this news reached Vienna, trade union leaders held a meeting and decided that the moment had come for the Austrian Social De-

mocracy to make its last stand against the Heimwehr and fascism by declaring a general strike throughout the republic at 11 A. M. The government retaliated by outlawing the Social Democratic party, declaring martial law and ordering any civilian found with firearms to be court-martialed and executed at once.

Fighting was in progress in many parts of the country by nightfall, with the government troops apparently gaining the upper hand, though the Socialists were stoutly resisting in many scattered areas. In Vienna the Heimwehr were in possession of the City Hall, and Burgomaster Karl Seitz and other municipal officials were in prison. A censorship over telegrams and wireless messages was in operation.

As this magazine goes to press, the fighting had entered upon its third day. It was particularly fierce and sanguinary in Vienna, where artillery fire wrecked most of the huge workers' apartment houses, which the Socialists defended in the most determined manner. No accurate estimate of the number already killed was obtainable, but it was known to include women and children.

The German Nazis were remaining neutral, but, according to Frederick T. Birchall in a dispatch of Feb. 13 to *The New York Times*, they were "watching eagerly on the side lines for the right moment to plunge in and collect the spoils. They can count on thousands of recruits among the workers who formerly opposed them but now are animated only by anger against this [the Dollfuss] government and all it stands for."

On Jan. 11 the Austrian Government had announced that during the first week of 1934 there had been 140 Nazi bomb outrages, besides hundreds of less serious political offenses. There were rumors that the doughty little Austrian Chancellor would appeal for protection to the League of Nations, but instead he sent, on Jan. 17 a note of protest directly to Berlin, setting forth a long list of grievances. The German Government, after considering the protest for a couple of weeks, made a reply on Feb. 1, in which it sought to refute the Austrian charges. It declared that the disorders in Austria were due to the internal conditions in the country itself. This reply was regarded at Vienna as "unsatisfactory."

Italy's Corporate State Advances

By WILLIAM E. LINGELBACH
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FURTHER steps toward the goal of an Italian Corporate State have been taken recently, the most notable being the enactment of the Corporations Bill at the final meeting of the Chamber of Deputies on Jan. 18. This measure (described in these pages last month) received the unanimous endorsement of the legislative body in a highly dramatic session. In accordance with the orders of the secretary of the Fascist party, the deputies left off their coats and appeared in black shirts. Before a gallery crowded to the doors with official and private guests, Premier Mussolini, also coat-

less and black-shirted, made his entrance amid the singing of the *Giovinezza,* and received a tumultuous ovation which lasted more than forty minutes. After the bill had been approved, Mussolini in a brief speech thanked the deputies for their services to the State and the Fascist revolution—and then the Chamber passed out of existence. Despite its rather innocuous character, it has approved a number of remarkable measures, notably the Lateran Agreements, which settled the sixty-year-old Roman Question.

Arrangements for the further development of the corporations will now have to be made in order to fit them more closely into the economic structure of the Corporate State, henceforth the basis of Italian political and economic organization. The Grand Council of the Fascist party meets on March 1, and the election (or perhaps better, the plebiscite) for the new Chamber is to be held on March 25. As was the case in the elections for the Chamber in 1929, the thirteen national corporations, representing capital and labor, will nominate 800 candidates, 200 others being submitted by such national organizations as the Ex-Combatants Association. From this group of 1,000 the Fascist Grand Council will select 400 names, which will then be submitted to the 10,500,000 voters for endorsement or rejection. Anticipating a favorable plebiscite, the government has already announced that the Chamber and the Senate will assemble on April 28, to listen to the speech from the throne. Precisely what the functions of the new Chamber of Deputies will be, save perhaps to vote itself out of existence, it is difficult to see, since all legislation of economic and social significance is, as provided by the Corporations law, now entrusted to the corporations themselves.

The process of fixing prices and regulating competition has already begun, and Italy is well on the way toward a regimented society in the matter of production and living costs. Under the new system, the individual guilds, of which there are more than forty, must make a detailed study of the cost of production and distribution in their particular fields, and, keeping in mind a reasonable margin of profit, suggest a fair price. This price will then be submitted to the particular corporation concerned for its approval or disapproval. Since each of the corporations is headed by a Cabinet Minister, State direction and cooperation is assured, and the initiative of the autonomous guilds is combined with watchfulness for the good of society as a whole. The entire process of production, distribution and consumption, of employment, wages and profits, and of domestic and foreign trade will thus, it is hoped, be scientifically integrated.

Italy's unfavorable trade balance and the heavy decline in both exports and imports during 1933 have caused considerable alarm. Imports decreased 875,000,000 lire and exports 872,000,000 (currently about $75,000,000 in each case). At the same time, the estimated government expenditures for the fiscal year 1934-35, which begins on July 1, show an increase of nearly 25,000,000 lire compared with a year ago. The total expenditures are placed at 20,636,000,000 lire. Expenses of education will rise 33,000,000 lire, those of the Ministry of Agriculture and the corporations 83,000,000. To offset these increases, there is a reduction of 264,000,000 lire in the military estimates, though the air forces will receive an added 14,000,000 lire.

On the question of a strong Italian

air force there is no conflict of opinion. In announcing the successful completion of Vittorini Mussolini's training as an air-pilot, General Giuseppe Valle, the Secretary of War, urged that every family emulate Premier Mussolini and dedicate at least one son to the air service. The General predicted an increase in the number of pilots from 5,000 to 50,000. There has been inaugurated, moreover, a plan to build up the reserve officer corps by employing 100,000 officers to organize and supervise the military training of 2,000,000 boys of the Balilla and the Avanguardisti under the direction of the Minister of Education. These two Fascist Youth organizations, in which the boys range from 7 to 14 and from 14 to 18 years of age, respectively, are to be led by officers from the Fascist militia, who will instruct and "prepare them for possible emergencies."

SPAIN'S MODERATE CORTES

Now that the smoke of the Spanish political battle has somewhat cleared, it appears that the elections in November and December did not mark quite so complete a swing to the Right as was at first supposed. The Centre, instead of merely holding the balance of power, occupies a strategic position and, because of its experience and prestige, seems to be assured of leadership in the Cortes. Prime Minister Alejandro Lerroux has brought together a strong Cabinet representing the Right and Centre parties—a bloc composed of Radicals, Agrarians, Popular Action (Catholic), Catalans of the Lliga, Liberals and Progressives. The same elements appear in the organization of the Cortes itself. Santiago Alba, a Liberal Minister under the monarchy and now a member of the Radical party, has been elected permanent president of that body and Madariago of Catholic Action has been appointed secretary. Commenting on the attitude of the new Cortes toward the Republic, Santiago Alba, in his speech of acceptance, declared: "The Republic and Spain have become one; the nation as a whole has awakened and become conscious of a great destiny."

In the meantime, the enthusiasm of the Right over its victory in the national elections was somewhat tempered by the setback in the elections in Catalonia on Jan. 14. Stung by their defeat in the country-wide voting, and stirred to unusual activity by the death of their popular President, Colonel Macia, the Catalan parties of the Left entered the campaign with unusual determination and enthusiasm. Liberal and Autonomist groups, fearful of the policy of the new régime in Madrid toward Catalan autonomy, put forth every effort to regain their lost prestige and to retain their control of the State government. In this they were ably supported by ex-Premier Azaña and his former colleagues of the Constituent Cortes. In the opening speech of the campaign, in the great Barcelona bull ring, on Jan. 7, Azaña appealed to a crowd of over 60,000 for unity of action in the fight against the conservative elements. The elections resulted in a complete victory for the Esquerra, which represents a combination of parties of the Left. Both the Right and the extreme Left went down to defeat, leaving the control of Catalonia in the hands of the moderate Left. This not only is a guarantee against any effort on the part of the Madrid government to impinge upon the liberties of the Catalans, but affords an assurance to the Catalan group that they will have in Barcelona a rallying ground for

their shattered forces. In the opinion of some observers, it will also serve as a more effective brake on the tendency toward excessive reaction in national affairs by the Madrid government than the threats of violence and general strikes by leaders of the Socialist Opposition in the Cortes.

Fortunately, the leaders of the Right are moderate, and for the present, at least, all groups, except the irreconcilable Monarchists, have expressed their willingness to cooperate with the Prime Minister. This is especially true of Gil Robles, the energetic young leader of Popular Action, who, though he refused to enter the Cabinet, has nevertheless assured it of his support in the face of the anger of the Monarchists. His party "accepts the Republic," he declared, "but insists that the government repeal or moderate by constitutional procedure the drastic anti-clerical measures of the last Cortes."

In addition, Robles announced an extensive social program as a part of the platform of the Conservative Catholic party—one which startled not only his own followers, but the Socialist Opposition as well. He set forth the details of his policy when, on Jan. 10, in a remarkable speech, he introduced a bill providing for social insurance of all workers between the ages of 16 and 60 whose yearly income does not exceed 6,000 pesetas (currently about $800). The plan calls for a fund to which the employers will contribute 2 per cent of all salaries paid, the workmen ½ per cent of their wages, and the government 50 per cent of the total thus raised. The government is asked also to appropriate at once 100,000,000 pesetas to start the insurance fund, and to guarantee its financing for two years. If the measure succeeds, it will intrude seriously upon what has heretofore been a major proposal of the Socialist party and its principal basis for claiming to be the champion of the workingman. Following the example of the Catholic Centre in Germany, Popular Action is taking a leaf out of the Socialists' manual. "Workers are human beings," Robles declared, "and labor is not merchandise, the price of which can be subject to the whimsical fluctuations of the market."

In general, the Lerroux government is developing a moderate program, calculated to appeal to the masses of the electorate. The program has five features: (1) The continuance of State aid to the rural clergy through pensions, since these priests were left without support by the anti-clerical laws passed by the previous government; (2) the promise not to close any more primary or secondary schools conducted by members of religious orders until the State itself can provide enough teachers; (3) the abolition of the Municipal Boundaries Law in order to give greater mobility to labor and to make the handling of unemployment less difficult; (4) the reform of the electoral law; (5) the possibility of a general amnesty for political offenders convicted before Nov. 19, 1933. Thus, while the program in particular directions is moderate, it nevertheless marks a distinct departure from that of the Left bloc which controlled the government of the Republic from April, 1931, to the Autumn of 1933.

The Supreme Court at Madrid in January reversed the decision of the court-martial at Palma, Majorca, which had in October acquitted five Americans, one a woman, accused of assaulting a civil guard, and sentenced four of the five to six months in jail, and released the fifth. Greatly disturbed, Ambassador Bowers de-

manded pardon for the prisoners, and finally, on Feb. 3, the Supreme Court complied. That the sensitiveness in the Balearic Islands concerning foreigners and the meticulous demands as to passports and other papers are attributable to military reasons seems clear. The islands are the key to the transport of troops to Africa, and, in part, to the control of the Western Mediterranean. Suspicions of a Franco-Spanish pact seem to be well grounded, and there has been much comment in connection with the development of the powerful new fortifications on Majorca, the principal island in the Balearic group. Now that the incident is satisfactorily settled, the effort to secure an increase in the American quota on Spanish wines may prove more successful.

Relations between Spain and the Vatican have been greatly improved as a result of the advent of the new government. During January the name of Leandro Petro Pomero was sent to the Vatican for approval as the first Ambassador of the republic to the Holy See.

PORTUGAL FOILS RED REVOLT

Events in Portugal have been moving slowly toward the establishment of a new order. Preparations for the election of a National Assembly are being made by Premier Salazar in accordance with the Constitution adopted last Spring. Meanwhile a Communist revolt, planned for Jan. 19, was promptly suppressed by the vigilance of the authorities. In Lisbon the police occupied the strategic points in the city shortly after midnight; railway stations, arsenals, factories and public buildings were carefully guarded, and suspected leaders were arrested. Sporadic attempts at violence in the country were promptly dealt with and a special court to try the leaders has been set up.

The Quest for Balkan Unity

By FREDERIC A. OGG
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THE opening weeks of 1934 were, as anticipated, significant in the annals of the Little Entente. The Economic Council recently created by the three allied States opened its first meeting at Prague on Jan. 9, under the presidency of Foreign Minister Benes of Czechoslovakia. Originally, the Entente had only a political purpose—defense of the newly established independence of the member States and concerted action in larger matters of international policy, especially in relation to the great powers. In time, however, objectives of an economic nature were added, and in his opening address at the recent Prague meeting M. Benes described the main purpose of the Entente to be the building up of a new economic organization in Central Europe. After discussing improved rail, water and air transport between the three countries, unification of economic, trading and legal institutions, and the establishment of new organizations for industrial and agricultural cooperation, the Council adopted resolutions aimed to keep 50

per cent of the members' foreign trade for 1934 among themselves. Conclusions were also reached on a number of economic matters that had been in controversy.

The first regular Little Entente conference for the year was to have opened on Jan. 8, but on account of the political crisis in Rumania precipitated by the assassination of Prime Minister Duca, was postponed to Jan. 20.

On most subjects of discussion the Foreign Ministers of the three States found themselves in complete agreement: Rejection of the reforms of the League of Nations proposed by Premier Mussolini; rejection likewise of the Italian plan for reorganization of the Danube Basin, beginning with an Austro-Hungarian economic alliance; disinclination—despite urging from France—to recognize Soviet Russia, at all events until after terms and conditions should have been sounded out; and opposition to Hungary's incessant propaganda for revision of the peace treaties.

On other matters there was less harmony. Yugoslavia was more disposed to an understanding with Hitlerite Germany than were Czechoslovakia and Rumania; and although the most important act of the conference was the acceptance of a plan for a five-year Balkan pact of non-aggression, Yugoslavia, before concurring, was obliged to overcome weighty obstacles arising from her growing rapprochement with Bulgaria and the latter's instinctive dislike of any international agreement guaranteeing the territorial integrity of member States and thus perpetuating the "dismemberment" of Bulgaria.

The plan for a pact was drawn up at Geneva, shortly before the conference, by Foreign Ministers Titulescu of Rumania and Maximos of Greece, the latter acting also for the government of Turkey. On Feb. 4 the text of the instrument was initialed at Belgrade by the Foreign Ministers of four States—Greece, Rumania, Yugoslavia and Turkey. Bulgaria was assured that the agreement was not in any way aimed at her, and was told that her adherence would be welcomed. Discussion of the matter by sovereigns and Foreign Ministers in the course of a four-day visit by King Boris to King Carol during the last week of January failed, however, to overcome the objections cherished at Sofia, where, indeed, bilateral pacts such as those lately entered into by Turkey with Greece, Yugoslavia and Rumania, are disliked as tending to force Bulgaria into accepting the *status quo*.

A GERMAN-POLISH PACT

Following discussions begun last November, a ten-year non-aggression pact between Germany and Poland was signed in Berlin on Jan. 26. Few expected so early a consummation, and hardly any recent international development stirred so much comment, especially in Central Europe.

The preamble of the treaty expresses the mutual desire of the two governments to "initiate through direct understandings a new phase in the political relations" between their countries. The pact, proceeding from the premise that peace between the two nations is "an essential prerequisite for the peace of Europe in general," declares the adjustment of all problems affecting their mutual relations through direct understandings to be the constant aim of the two powers. Should controversies arise which cannot be settled in this way, they will "take recourse to such other peaceful methods as may be at their disposal." In line with the prin-

ciples of the Briand-Kellogg Pact, an instrument to which specific allusion is made, Germany and Poland pledge themselves under no conditions to resort to force for settling such disputes. International obligations previously assumed toward other parties are not to be affected; nor "such questions as under international law are to be regarded as domestic questions of one or the other of the States." The agreement is to continue for ten years, and indefinitely thereafter unless terminated on six months' notice by one of the governments.

Little scrutiny of this remarkable agreement is required to discover that it carries more implications than its formal text discloses. In the first place, specification of a ten-year period may be taken—has indeed been construed in Berlin—as an index of the stability of German policy and of the Nazi régime generally. In the second place, the League of Nations is left entirely out of the picture, implying that Germany's withdrawal from Geneva is to be definite and permanent. In the third place, by leaning on the Briand-Kellogg Pact, the agreement is manifestly intended to document further Germany's oft-asserted devotion to peace. Finally, the pact in effect insures that in case of trouble with the powers over such matters as the proposed union with Austria, Germany will not find her situation made more difficult by a simultaneous dispute with Poland. The accord does not mention frontiers, and is certainly not expected by Poland to lead to any territorial losses on her part.

The two major countries in which the pact stirred most interest were France and Russia. As his last act as Foreign Minister in the Chautemps Cabinet, Joseph Paul-Boncour issued a statement to the press on Jan. 27 "rejoicing" at the signature of the agreement and pointing out that Poland's previous treaty engagements with France and commitments under the Covenant of the League, the Locarno treaty, and other great international documents were unaffected. That the tendency of Warsaw to rely less completely upon its French connections and of Germany to drive a wedge between the two allies causes misgivings at the Quai d'Orsay, admits, however, of no doubt.

In all consistency, Moscow was bound to give the pact its blessing. Foreign Commissar Litvinov has never wearied of declaring that his government welcomes every compact tending to assure the peace of the world. Besides, Russia herself has a non-aggression pact with Poland, dating from December, 1932. *Pravda,* however, doubtless voicing official sentiment, characterized the text of the agreement as vague and unsatisfactory, particularly on the score of Germany's willingness to accept existing territorial arrangements, and guardedly inquired whether, after all, the real purpose at Berlin might not be to isolate Poland and manoeuvre for frontier revision.

NEW POLISH CONSTITUTION

The new Polish Constitution, heralded by its sponsors as embodying the best fruits of the nation's political experience during the period of the republic, was laid before the Sejm in full meeting on Jan. 26 and quickly approved. The new instrument ends what has been called "Sejmocracy" and substitutes a scheme of strong executive government. That a plan which had been in preparation for three years should have been adopted in hardly as many hours could be explained, however, only by the fact that at the last it triumphed by default.

The Constitution of 1921 was curiously vague on the subject of amendment, and when the government's project reached the floor of the Sejm, opposition elements maintained that an amendment, and therefore a new Constitution, could be adopted only by a two-thirds majority of the Sejm and the Senate after three readings. The government, on the contrary, held that action by the Sejm was sufficient. Having stated their case, the Opposition groups left the Chamber. Deputy Speaker Car thereupon ruled the committee draft a formal bill, and a house consisting of only government supporters rushed the measure unanimously through three readings in a single sitting. (For an outline of the new Constitution, see February CURRENT HISTORY, page 622.)

Most of the changes centre on the increase of powers of the President of the republic. A parliament of two houses survives, but not "parliamentary democracy" in the usual meaning of the term. In presenting the plan, M. Car, indeed, frankly explained it in terms of Marshal Pilsudski's opinion that parliamentary democracy is "an obsolete form of government."

RUMANIAN PARTY POLITICS

The crisis precipitated in Rumania by the assassination of Prime Minister Ion Duca by a member of the Fascist, anti-Semitic Iron Guard on Dec. 29 continued for two weeks. The Liberal party, whose smashing electoral victory only a week before M. Duca's death won it some 300 seats in a Chamber of 387, remained in full control of the parliamentary situation. Difficulty was encountered, however, in arranging for the succession to the murdered Premier. Rifts have developed in the party ranks, and the towering problem, not only of how to curb the Iron Guard and similar disturbers of the peace, but of what to do with the thousands of persons arrested when M. Duca was killed, has remained largely unsolved.

Upon M. Duca's death, King Carol designated Dr. Constantine Angelescu, Minister of Education, as Premier, only to discover that the appointee was almost universally considered too easy-going to deal successfully with the critical situation in the country. So dissatisfied, indeed, was Foreign Minister Titulescu, who was vacationing in Switzerland at the time, that he not only refused to return to Bucharest but indicated that he would not continue in office. France, Rumania's principal ally, was likewise reported to be by no means pleased. Accordingly, a Ministry intended to be only a stop-gap, but certainly expected to endure for some weeks, was induced, on Jan. 3 to resign.

The King then turned to George Tatarescu, secretary of the dominant party and Minister of Commerce in the Duca government. Though but recently risen from obscurity, he is already known throughout the country for his vigor and decisiveness, political skill, brilliant oratory and personal charm. A new Ministry was projected, differing but slightly in personnel from those of Duca and Angelescu, and but for one circumstance it would have been ready to take the oath of office as early as Jan. 5. The obstacle was the continued hesitation of M. Titulescu to remain at the Foreign Office.

Undoubtedly M. Titulescu approved of the selection of Tatarescu as Prime Minister; in fact, he probably had a good deal to do with it. Yet, upon his return to the capital, he conferred repeatedly with the King, insisting that unless law and order were fully restored in the country, he would prefer to return to his old post as Minister

to London. His positive demands, which he declared were those not only of himself but also of France, included the dismissal of the King's personal secretary, regarded as a leading spirit in the Court Camarilla, and three other high functionaries, among them the War Minister and the Chief of State police. Grudgingly, the Sovereign gave his promise, and on Jan. 10 M. Titulescu accepted the portfolio awaiting him. Thereupon, the new Ministry, pledged to efface the civil anarchy and to carry out the program of the recent Duca Government, was sworn in.

Premier Tatarescu represents, as do most of his colleagues, the younger element in the Liberal party which enjoys the favor of the King. But there is also an older element, represented by Titulescu and associated particularly with the traditions of the Bratianu family. When an official leader for the party was selected to succeed M. Duca, the older wing saw to it that the choice fell not upon Tatarescu, but upon Dino Bratianu, brother of two former Rumanian Premiers, son of a third, and oldest surviving member of the famous "dynasty." King Carol would have preferred almost any one else. It was the Bratianu brothers who exiled him years ago, and he has never forgiven them.

Meanwhile, relations between the King and his imperious Foreign Minister continued strained. Some of the removals upon which the latter had insisted were not actually made, and the evasions with which renewed demands were met were, at the date of writing, adding to the tenseness of a situation considered by observers to be not far from the breaking point.

KING ALEXANDER IN CROATIA

As a conciliatory gesture toward the disaffected Croatians, King Alexander and Queen Marie of Yugoslavia recently spent a full month at Zagreb, returning to Belgrade on Jan. 11. Earlier visits of royalty to the old Croat capital have been few and brief, but on the present occasion the movement for Balkan pacification which was expected shortly to assume concrete form seemed to call for special effort to appease Croatian discontent and perhaps pave the way for political reconciliation. Mingling freely with the people in the streets, contributing from his privy purse to the relief of the city's poor, receiving scores of local deputations, and taking an active part in rehabilitating a hard-pressed Union of Cooperative Societies, the monarch infused increased cordiality and confidence into his relations with his Croat subjects. After his departure hope was widely expressed that in the more favorable atmosphere thus created some serious attempt would be made to settle the long-standing Croatian problem. Talk of genuine provincial autonomy was revived, and opinion grew that the King, with whom rests the final word in this, as in all other matters, was no longer wholly unsympathetic.

AGRARIAN DISCONTENT IN BULGARIA

Bulgaria's Minister of Industry and Commerce, Dimiter Guitchev, admitted in a recent press interview that his Agrarian party was demoralized, disillusioned and well-nigh powerless. M. Guitchev rose suddenly from obscurity to the leadership of his party nearly seven years ago, and has been regarded as one of the strongest personalities in the present coalition Cabinet. He testified, however, that the exigencies of the economic crisis have made it impossible for the government to carry out the reforms expected of it, and that the

elements among which the bitterest dissatisfaction exists are the peasants—a most important element, too, inasmuch as Bulgaria is pre-eminently a peasant country. The leadership of M. Guitchev is endangered, although to date no one has arisen who, in the estimation of the peasant rank and file, promises anything better. Meanwhile, the leader himself is significantly advocating a "controlled democracy," or "authoritarian" government, on the ground that the masses have not proved able to create a peasant government capable of managing their affairs successfully.

THE CASE OF SAMUEL INSULL

The American press throughout January carried many foreign dispatches—many of them speculative, and even imaginative—concerning the question of what was going to happen to Samuel Insull after the expiration, at the end of the month, of the police permit on which he had enjoyed refuge in Greece since 1932. About the middle of January an appeal was lodged with the Greek Supreme State Council praying that the deportation edict of the Department of the Interior be set aside.

The Council on Jan. 24 handed down a curiously worded decision in which it seemed now to claim and yet again to disclaim jurisdiction, but with the final result of leaving matters where they had been. From that time forth, it was manifest that the only circumstance that could prevent the decree from being carried out was the former magnate's physical condition. Meanwhile, with a view to facilitating Mr. Insull's departure from Greek soil, which was expected to lead in turn to extradition from any country to which he might go, the State Department at Washington on Feb. 1 rescinded the cancellation of his passport, making it valid for travel anywhere.

Nazi Ambitions in the Baltic

By RALPH THOMPSON

BEFORE National Socialism came into power in Germany, a cardinal point of its foreign policy was "Eastern expansion," to a degree never precisely limited. In recent months there has been continued activity of a sort to show that these pre-election promises of the Hitlerites were not simply promises, and consequently Estonia, Finland, Latvia and Lithuania—as well as Poland and the great Union of Socialist Soviet Republics itself—have been especially concerned with the effect of the propaganda reputed to stem from the Wilhelmstrasse.

Early in January a report from Helsinki indicated that Russia and Poland had discussed informally the possibility of guaranteeing the safety of Finland and the Baltic States, and had sounded out the beneficiaries under the guarantee. Finland is said to have refused consent to such insurance on the ground that her non-aggression pact with Russia is a sufficient basis for friendly relations. Estonia and Latvia, however, are reported to have agreed in principle. Lithuania is said also to favor the scheme, though she has had no diplo-

matic relations with Poland since the Poles occupied Vilna, and hence is hardly in a position to give a direct answer to the question. Yet the proposed pact would be a guarantee against future Polish aggression as well as a safeguard against whatever dangers threaten from Germany.

Newspapers in Moscow, Warsaw, Berlin and Paris have become greatly interested in the negotiations, although confirmation from either Russia or Poland has not been forthcoming, and despite the fact that certain official publications in the latter two nations labeled the reports as "inexact." *Le Temps* (Paris) remarked on Jan. 8 that "German activity in the Baltic countries has taken such a turn that it will bear constant scrutiny," and that "without doubt certain elements in these States are acting on orders from Berlin." A dispatch from Kaunas dated Jan. 20 indicated that French opinion would support a four-power Baltic bloc if the Russo-Polish guarantee proved abortive.

Regardless of the sharpness with which hostile voices have been raised upon signs of Nazi penetration to the east, therefore, that penetration seems to persist—and to arouse increasing objection. Foreign Minister Salnais of Latvia nearly lost his post late last December because he appeared to hesitate in expelling two so-called Hitlerite agents from the country—and in fact did submit his resignation after receiving a half-hearted vote of confidence from the Latvian Parliament. Prime Minister Blodnieks, however, refused to accept the resignation. Further evidence of the fear of Germany may be seen in the fact that on Jan. 9 Latvian police arrested several Nazi organizers and claimed to have uncovered a "great Hitlerite organization" which was spreading its literature among the population and insinuating itself into Latvian societies of various kinds.

FINLAND'S WAR DEBT

The American reaction to Finland's care in meeting payments under the war-debt agreement has been a peculiar one, and apparently will secure for her certain concessions from the United States which she might not otherwise have obtained. Rumors from Washington during January indicated that President Roosevelt would ask Congress to acknowledge Finland's conscientiousness by reducing either the principal of her debt, which amounts to some $9,000,000, or the interest rate, which stands at 3.31 per cent, and is as high as that imposed on any debtor nation. There was also talk of the conclusion of a favorable commercial treaty between Finland and the United States.

On the other hand, Finland's friendly commercial relations with Germany seem to be over—for the time being, at least. Berlin denounced the Finno-German trade treaty late last October, and on Jan. 1 the Helsinki Cabinet marked the termination of the pact by raising the import duties on many goods coming from Germany and certain other countries. A few days later the government of the Reich forbade the import of Finnish eggs and dairy products, and on Jan. 9 President Svinhufvud retaliated by signing a decree which places an embargo on German farm produce, textiles, motor cars and certain other materials. Thus a veritable trade war between the two nations has begun, and some observers profess to see in the inhospitable gestures the first fruits of the recent Anglo-Finnish trade agreement, signed in Helsinki on Sept. 29, 1933, and

passed by the Finnish Diet on Nov. 10. There seems to be little doubt that recent anti-Nazi activity in Finland, a country ordinarily extremely friendly toward Germany, has annoyed the Reich, and it is evident that the pro-British orientation of the Baltic States is also looked upon with disfavor by the German Government.

LABOR GAINS IN NORWAY

As a consequence of the remarkable gains made by the Norwegian Labor party in the Parliamentary elections last October, Johann Nygaardsvold, its leader, was elected Speaker of the Storting by a large majority. Nygaardsvold is the first Labor leader to occupy this position, although Christopher Hornsrud, prominent Laborite and former Premier, was Vice Speaker in the Parliament just terminated.

Johann L. Mowinckel, leader of the Radical party and Premier since March, 1933, has remained in office despite prophecies that his government would fall. It is believed that he will resign only on an unmistakable vote of no-confidence, which may be forthcoming if the Labor party produces a program which appears feasible to the Storting. At present the proposals of the Labor party include expenditures of 140,000,000 kroner on relief schemes (currently $35,000,000), while Mowinckel's figures for the same purposes are 75 per cent less. The Labor party further advocates State guarantees on all bank deposits and an expansion of credit through the issuance of short-term Treasury bills which would rank with cash in the Bank of Norway. As for its more radical tenets, such as complete dominance by the workers in the nation and a thoroughgoing redistribution of wealth, these apparently will be shelved in the interest of harmony, lest a coalition of bourgeois parties once more arise and defeat even the diluted ambitions of those who advocate a socialistic economy.

Soviet Rule by Party Machine

By EDGAR S. FURNISS
Dean of the Graduate School, Yale University

THE All-Union Congress, which represents the final authority in the Communist Party and therefore in the Soviet Union, convened in Moscow on Jan. 26 with over 2,000 delegates from all parts of the country in attendance. This body, which in violation of the constitutional requirement of biennial sessions had not met since the Summer of 1930, is entitled to an accounting of the past activities and the future plans of the party chiefs, and has power to ratify or repudiate these acts and programs. Before disbanding it selects a new Central Executive Committee to wield the sovereign power within the party during the next two years, and leaves to the committee the designation of ten of its number to constitute the Political Bureau, the party organ which dominates the official Soviet government, and the election of the next General Secretary of the party, the position now held by Joseph Stalin.

Theoretically, then, the meeting of the congress is an event of great importance to the party leaders and the

Soviet Government. In past years there have been occasions when the congress presented real opposition to the Communist officials and subjected their policy to vigorous criticism, but this year the outcome of its deliberations was a foregone conclusion. The congress met to applaud and ratify, not to criticize and amend, the program of the party leaders, and to re-elect these leaders rather than to make changes among them. This unanimity of opinion resulted, in part, from the drastic revision of party membership which had been going on during the past year.

At the beginning of 1933, the party contained approximately 2,000,000 full members and somewhat more than 1,000,000 probationers. Before the year ended, however, 270,000 members and 250,000 probationers had been expelled; 200,000 members had been reduced to the grade of probationer; and 210,000 probationers had been degraded to the newly created category of "sympathizers." The delegates to the Congress were selected, therefore, by a party membership which was completely in accord with the leaders.

The unquestioned success of the Communist program for 1933 was another important reason for the harmony which prevailed within the party councils. The entire country has been thrilled by the triumph of Soviet diplomacy in international affairs, particularly Litvinov's achievement in winning American recognition. Moreover, the Soviet Government dramatically displayed the success of its domestic policy by publishing only a few days before the meeting of the congress the official grain statistics for 1933, which showed that the harvest had set an all-time record for Russia, exceeding by nearly 10,000,000 tons the bumper crop of 1913.

Although the deliberations congress this year were largel functory, the meeting was not of significance. For one thing, i Joseph Stalin an opportunity, c 26, to make one of his rare statements of Communist theoı policy which serve better tha other source of information to pret the Soviet Union to the c world. But the really importa tivity of the congress was con with another matter which here has received little publicity—n a thoroughgoing reorganization Communist party and the creat a new relationship between the and the government.

Previously the party has no officially connected with the of the Soviet Government. The leaders, to be sure, have always nated the governmental structuı tainly in its central, if not alw its local, units. For some tim this relationship has been reco by having Stalin, as party chief tersign decrees promulgated b lotov, the Soviet Premier, but been extra-legal. According to t viet Constitution, the governm the State has no organic conı with the actual dictatorship country in the persons of the h ficials of the party. Now a re of the Constitution is proposed will make party and governmen thority identical.

The plan embodying this was prepared by L. M. Kagaı chief lieutenant of Joseph Sta the Political Bureau. Two new mittees of control are to be cı attached respectively to the C Executive Committee of the par the Council of Commissars, the est organ of the Soviet Goverı The word "control" is used adv for the new committees are in

to have authority in party and government to select officials and shape policy. The committees are to be elected by, and to be responsible to, the Communist Congress, thus establishing the party in a position of final authority not only over its own officers but over the personnel of the government as well. Governmental offices will be staffed only with loyal Communists, although at present, while the party represents only a small fraction of the people, the central government will be affected first, while the subordinate posts are filled from the ranks of the newly created "sympathizers." If the party is expanded, as proposed, until it embraces a majority of the people—in itself a radical departure from former Communist practice—the fusion of Soviet officialdom and party membership would eventually be completed.

The plan goes further than the legal subordination of the agencies of the State to the sovereign organ of the Communist party, for it proposes a realignment of central and local units, both in the party and in the government, so as to centralize authority completely. Heretofore the smallest local party unit, the "cell," has been controlled only remotely by the national leaders, and in local affairs democratically elected party committees have had a good deal of autonomy in shaping policy. The weakness of this system was disclosed three years ago when the local committees, getting out of hand, precipitated a nation-wide "slaughter campaign" by the peasantry through their excesses in connection with the collectivist program. The extent of this calamity was revealed in the figures submitted by Stalin to the congress, which show that Russia's supply of live stock is still less than half of what it was before the peasant revolt. More recent examples of the same weakness were given by the separatist movement in the Ukraine and the disloyalty of the local party leaders in South Russia and the Caucasus. The new plan proposes to forestall any future disruption within the party by wiping out all local authority and giving complete power to the national leaders. The cell and the local committee are to be abolished, and the newly created control committee will dominate the localities through agents of its own choosing.

Similar centralization will be carried out in the structure of the Soviet Government. Formerly, the Council of Commissars through its various sections maintained a considerable degree of control over the local governmental agencies. But each locality had an elected organization responsible to the local constituency, which might display a certain amount of independence in interpreting and administering the decrees of the central authority, thus producing wide divergences of policy in different regions. These elements of local autonomy are now to be abolished and the control committee attached to the Council of Commissars is to function locally through its own agents. With government and party united at the top, the small group of men who control the nation's destinies will be able to maintain discipline throughout the entire country.

Aside from these questions of governmental reorganization, the All-Union Congress of the party considered two groups of problems—the provisions of the Second Five-Year-Plan and the state of the nation in foreign affairs. The details of the Five-Year Plan were announced on Dec. 30 in time to receive thorough publicity before the congress convened. (See February CURRENT HISTORY, page

630.) It is significant that the whole program was presented to the congress as an effort to raise the level of comfort within the country rather than, as was the case with the preceding plan, to promote the industrial self-sufficiency of the nation.

The entire system of rationing food and manufactured goods, it was promised, would be abolished within the near future. Commercial stores open to all citizens are to take the place of the existing closed shops which are available only to those who hold ration cards, and the open competitive market for food supplies is to be allowed free development. Already the abundance of cereal grains has made it posible to remove the ration restrictions in many regions. And the proposal to turn the major part of the government's new investment into the industries producing household articles and into the transportation system forecasts a similar relief of privation with regard to other necessities of life.

A scheme of wage payment which marks a complete break with the Communist doctrine of equality of income was also presented to the congress. Some departure from this doctrine has already been made. It is now proposed to abandon all pretense of equality of wages and to give greatly increased monetary rewards to the superior grades of workmen. The system, as outlined in *Pravda* on Jan. 4, appears to the foreign observer not much different from the wage system of capitalist industry.

The foreign affairs of the Soviet Union were discussed at length by Stalin and by subsequent speakers. The former disclosed nothing new regarding Russia's foreign policy, but his reference to Germany placed a slightly different construction on recent developments in this sector of international affairs. He denied that antagonism toward Germany had caused the Union to discard its policy on revision of the Versailles treaty or, indeed, that it had in any respect changed its policy toward Germany. Whatever change had occurred in the situation he attributed solely to an alteration of policy by the Germans themselves, implying that the Union would be found receptive to any sincere effort made by the German Government to re-establish cordial relations.

The danger spot in Soviet foreign relations, as stated emphatically by Stalin and other speakers, lies in the Far East. Nevertheless, there have been indications recently that the tension between Japan and Russia was lessening. When, on Jan. 14, Manchukuo agreed to release the six Soviet officials of the Chinese Eastern Railway, who were arrested in September, and the Union at once expressed willingness to resume negotiations with Japan for the sale of the railroad, it was expected that the attitude on both sides would grow more conciliatory. But the incident did not have this effect, at least as far as Russian opinion was concerned. During the last two weeks of January a number of high officials in the Soviet Union, L. M. Kaganovich and I. V. Kossior, as well as Stalin, stated publicly that war with Japan seemed inevitable and that the Union was actively preparing for it. Military preparations on the Siberian frontier, in the form of fortifications and the concentration of troops and supplies, were described in detail, and it was admitted that Vladivostok was being supplied for war, especially with aircraft. These statements may be characterized as propaganda for domestic consumption, but it cannot be denied that they have an ominous tone.

Turkey's Five-Year Plan

By ROBERT L. BAKER

THE Turkish Council of Ministers formally announced the adoption of a five-year industrial plan on Jan. 9. A brief description of the scheme, based on the preliminary discussions, was given here last month. According to the final decision, fifteen factories are to be built, twelve of them wholly by the government. The remaining three, which will be textile mills, will be left to private enterprise. Nearly all these plants are to be established in Anatolia, and in places that are comparatively safe from invasion.

In setting out on this industrial program the Turks have undoubtedly been influenced in part by the example of Soviet Russia. The recommendations of the group of American experts under General Walker D. Hines, which has been studying the country's resources and prospects since last May, must likewise have encouraged the government to take a more active rôle in the development of industry. It must be added, however, that the Turkish Government had already shown a decided bent in the direction of State-owned and State-controlled industries. Most of the railways, the extensive system of monopolies, coastal shipping, mines, sugar mills and factories of many kinds were in government hands before the arrival of the Hines commission.

Some of the elements of the Soviet industrial drive are already appearing in Turkey. In mid-January the Ankara Government ordered the nation to bed early so that it would have plenty of energy to carry out the five-year plan. Theatres were required to close at 11 P. M. and trolley and ferry traffic to stop at 11:30. These regulations were to be observed even during the festive month of Ramadan, when Moslems fast by day and eat only between sunset and sunrise.

In order to raise money for the establishment of factories under the plan, new taxes and an increase in the income tax schedules, which are already high, are expected, as well as internal loans, along the lines of the successful one floated last year.

Though the reforms most necessary to Turkey's Westernization have already been undertaken, others are constantly being put into effect. On Jan. 1, for example, the use of the metric system was made obligatory throughout the country. It will take some time, of course, for the Anatolian peasants to become accustomed to metric weights and measures, but under Mustapha Kemal they are used to learning new and arbitrary things quickly. After some initial confusion the change should be of considerable benefit to commerce.

Another reform of importance appears imminent. Family names have almost disappeared in Turkey, and at present most Turks are known by one name only. The government has decided that there are too many Mahmuds, Alis, Ahmets and Mustaphas who are indistinguishable from one another on police and government records. Before long, it is believed, Ankara will require all persons to assume or adopt family names.

Since Turkey had not yet concluded an extradition treaty with the United States, Samuel Insull appears to have hoped to find refuge there after leaving Greece, but on Jan. 15 Shukru Kaya Bey, the Turkish Minister of the Interior, instructed the Police Department not to allow Insull to enter the country. In spite of this the fugitive utilities magnate seems to have hoped for a haven in Turkey. An Istanbul newspaper on Jan. 31 stated that two Greek representatives of Insull had arrived with an offer to invest $15,000,000 in the new five-year industrial plan in return for a permanent refuge in Turkey. On Feb. 5, however, the United States Senate ratified an extradition treaty with Turkey which includes the offenses on which Insull has been indicted in America. The treaty now lacks only formal promulgation to become effective. In any case the Turkish avenue of escape for Insull seems definitely closed.

DEMONSTRATIONS IN PALESTINE

The Palestine Government appears to have taken, temporarily at least, a hint from Mahatma Gandhi's methods, by adopting a policy of nonresistance toward Arab demonstrations. In December the Arab Executive announced that demonstrations would be held throughout Palestine on Jan. 17, the date of the feast of Bairam, to protest against Jewish immigration and purchase of lands and against British rule. As all such gatherings had been strictly forbidden by the authorities, it was feared that the scenes of October, when there were riots and bloodshed in various places, would be repeated. On Jan. 16, however, the government announced that demonstrations would be permitted in Jerusalem, Jaffa, Haifa, Nablus and Tulkarm, but on condition that the processions should take place between 7 and 8 A. M., and only along prescribed routes. No sticks or firearms were to be carried, and there were to be no speeches or music.

The Arab Executive hastened to give wide publicity to the government's concession, hailing it as a victory for the Arab cause, and urged all Arabs to participate. The demonstrations were held as scheduled, but the numbers attending fell far below the expectations of the Arab leaders. The marchers carried banners condemning the mandate and Zionism and shouted defiance, but they committed no acts of violence. In each place a proclamation setting forth the Arab grievances was read. Though few police were to be seen, the authorities were in readiness to deal with any emergency, holding mobile forces in their barracks ready for instant action.

By permitting the demonstrations, the government not only incensed the Jewish community, who charged favoritism, but lost some prestige among the Arabs, who attributed its action to weakness. The Arabs are, moreover, in position to claim that if the government had not interfered last October there would have been no bloodshed.

It becomes increasingly apparent that those responsible for the administration of the mandate are guided by considerations of expediency. Nor is this a cause for wonder, or for serious criticism, since the British Government itself has never been able to formulate a clear-cut and in practice unambiguous policy in regard to Palestine. The Balfour note of 1917, which promised the establishment of a Jewish national home in Palestine, has been interpreted and reinterpreted, but after sixteen years neither Jew nor Arab nor High Commissioner

knows where he stands. On the one hand, Great Britain is under obligation to fulfill the commitments of the Balfour note; on the other hand, she is under obligation to administer Palestine as a Class "A" mandate, that is, to tutor the country in the direction of ultimate self-government, as was done in the case of the former "A" mandate of Iraq. In practice these two aims have proved incompatible, and it is scarcely an exaggeration to say that the objective of self-government is even further from realization today than it was in 1922 when Britain assumed the mandate. Some change in the status of Palestine seems imperative. In England there is a growing sentiment in favor of returning the mandate to the League, but offering, at the same time, to reaccept Palestine for administration as an integral part of the British Empire.

EGYPTIAN AFFAIRS

When Premier Sidky Pasha, the Strong Man of Egypt, was replaced last Fall by Yehia Pasha, a Premier with hardly any following in Parliament, it was freely predicted that Egypt would witness great political changes before the Winter was over. These views have not been borne out. There have been the usual excited debates in the Chamber of Deputies, and the usual attacks on the government for its inaction have been made by the press and by individuals. But there is always political excitement in the country in Winter. The Egyptian press thrives on political news and is adept at manufacturing and exaggerating issues, scandals and feuds. To be sure the Winter is not yet over, but it is well advanced, and from present signs the Cabinet of Yehia Pasha may hope to survive the current Parliamentary session and with it the immediate danger of fall.

Ex-Premier Sidky Pasha remains a power to be reckoned with in Parliament. After announcing his withdrawal from politics and his resignation from the Chamber on Dec. 7, he changed his mind and dramatically withdrew his resignation on Dec. 18. The government, which had left no stone unturned in its efforts to drive Sidky out of political life, was taken aback. Sidky is not as strong as he once was, because he no longer has the power to dispense patronage, but his personal influence remains considerable, and the possibility of his taking an active rôle against the government in the Chamber haunts the present Cabinet.

King Fuad, who greatly extended his control over the government during Sidky's illness last year, has taken another step in the same direction. On Jan. 27 he issued a royal rescript requiring all Cabinet Ministers to swear an oath of allegiance to the King and Constitution. This oath, already required of Senators and Deputies, was immediately administered to the members of the present Cabinet before witnesses and was recorded in writing. The Constitution which all Cabinets must swear to support is the one which Fuad proclaimed in a royal rescript in 1930, and which served greatly to increase the power of the Executive. The effect of the new oath has been relatively to strengthen the Crown and aristocratic parties and to weaken the Wafd Nationalists still further. The Wafd is still bitterly hostile to the new Constitution, and no Wafd Ministry can now assume power without swallowing its scruples in this respect.

America and Japanese Aims

By TYLER DENNETT
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WHILE the relations between Japan and Russia during January remained the most acute phase of the Far Eastern question, both Japan and the United States, by the reassertion of opposing policies, brought again into sharp relief the potential conflict in the Pacific.

Dr. Stanley K. Hornbeck, Chief of the Division of Far Eastern Affairs in the State Department, ventured the private opinion in an address on Jan. 18, before the Ninth Conference on the Cause and Cure of War, that "in regard to all parts of the Far East, the American people have viewed with disapproval tendencies—where manifested—toward imperialistic angling in troubled waters. Also, they naturally have assumed that they themselves have there as elsewhere certain rights and in connection with them certain obligations." In Japan these words were interpreted as indicating that the American people, and, presumably, the American Government, continue to regard with disapproval the tendency of Japan to make use of the disorder in China for purposes of Japanese imperialism.

Dr. Hornbeck followed this statement with a review of the history of the twin doctrines of the Open Door and the integrity of China, and pointed out that the Nine-Power Treaty of 1922 contained "a solemnly concluded multilateral pledge on the part of the United States and (now) thirteen other powers to respect China's integrity, to foster the principle of equality of commercial opportunity in China, and to practice self-denial and self-restraint in relations with China." The context of this sentence made it reasonably plain that Japan was being reminded that she had not respected this pledge. While the foregoing statements were unwelcome in Tokyo, the greatest resentment was directed against Dr. Hornbeck's remark that the American doctrine of non-recognition which had been elaborated, although not originated, by Secretary of State Stimson on Jan. 7, 1932, had been adopted also by the League of Nations. "Evidence in the field of action during the past year," stated Dr. Hornbeck, "indicates that both the United States and the members of the League are acting * * * in conformity with the non-recognition formula."

In conclusion Dr. Hornbeck suggested that, while the American Government is opposed to "commitments involving, or tending to involve, the United States" in conflicts in which its rights, obligations and interests are not at stake, it is equally the policy of the United States "to prevent or combat unlawful use of force by others when the latter imminently imperils the lives and legitimate interests of American nationals or the integrity of American soil" by the employment, where necessary, of military force.

As cabled to Japan the Hornbeck address coupled the words "non-recognition" with "government made by the sword." The latter phrase, which

is obviously a slightly more pointed description of Japanese action in Manchuria, does not appear in the mimeographed text of the address as given out by the Department of State. The text of the address was released to the morning papers of Jan. 19, the day following the publication of a copyrighted Associated Press dispatch from Hsinching (Changchun) in which Henry Pu-yi, Emperor-to-be of Manchukuo, pleaded for American recognition of his country. The Japanese Foreign Office on Jan. 20, promptly announced that the "boy Emperor" would be enthroned on March 1, and at the same time hotly resented Dr. Hornbeck's address as "most regrettable at this particular moment, when the Japanese authorities are exerting their utmost efforts for the promotion of friendship between Japan and America." The Foreign Office spokesman added: "Hornbeck's utterances convey the impression of willfully ignoring the existence of a great power bearing responsibilities for the maintenance of peace in Eastern Asia. It should not be forgotten that the Empire of Japan exists in the Far East as much as does the United States on the continent of America."

Three days later, on Jan. 23, Foreign Minister Koki Hirota, while making no direct reference to the Hornbeck address which had asserted that the American Government has "certain rights" and duties in the Far East, declared before the Japanese Diet: "We should not forget that Japan, serving as only a cornerstone for the edifice of peace in Eastern Asia, bears the entire burden of responsibilities." Mark the adjective "entire." Mr. Hirota insisted that no insoluble difficulties exist between Japan and the United States and that Japan is not "picking a quarrel with America," but added: "I am ›nfident that the United States will not fail to appraise correctly Japan's position in Eastern Asia." What do such words mean if not that Japan now claims in Eastern Asia a position which was not recognized in the Nine-Power Treaty and which Dr. Hornbeck believes to be still unrecognized, but for which Japan, if crowded, will fight?

The exchanges between Japan and the United States during the month did not stop with Dr. Hornbeck's address and Mr. Hirota's reply. The Commander-in-Chief of the Japanese Navy, Vice Admiral Nobumasa Suetsugu, wrote in the February issue of *King,* a magazine with one of the largest circulations in Japan, that the United States has no need for the greatest navy in the world, that it menaces other nations, and is contrary to the principles of the Kellogg pact. Following several days of debate in the Japanese Diet on naval policy, Admiral Osumi, Minister of the Navy, disclosed on June 31 that the Japanese naval program, for which appropriations are included in the 1934-35 budget, will at the end of 1936 bring Japanese ratios up as follows: Total navy, including over-age tonnage, 68 per cent; total navy, excluding over-age tonnage, 81 per cent; total auxiliaries (cruisers, destroyers, submarines), including over-age, 78 per cent, and total auxiliaries, excluding over-age, 100 per cent. He predicted that in destroyers and submarines, categories not now included in the naval limitation treaties, Japan would have ratios to the United States of 156 and 162 per cent, respectively.

In Washington, the day before the Osumi statement, the Vinson Naval Bill had easily passed the House with the prospect that it would also pass

the Senate and have President Roosevelt's approval. This bill is in addition to one already passed which authorizes a full "treaty navy" by 1939, and the greatest air force in the history of the American service. The effect will be not only to give the United States a "treaty navy," but a new navy as well. Thus, subject to the limitations of the existing naval limitation treaties, Japan and the United States are now starting upon a naval race.

In the Japanese House of Peers Kenkicki Yoshizawa, former Foreign Minister, declared on Jan. 31 that if the Japanese and American navies were to dictate the programs of their respective governments in the 1935 Naval Conference "a rupture would be inevitable, leading, if the pessimists' view is accepted, to intensified naval competition—even if war is averted." He questioned whether it would not be better to abandon the proposed naval conference unless preliminary negotiations showed the possibility of an agreement. Foreign Minister Hirota, not dissenting, is reported to have given "a general but vague concurrence" with Mr. Yoshizawa's views.

When Mr. Hirota, on Jan. 24, told the Diet that he was communicating with the American Government in an effort to solve the difficult problems which seem likely to arise two years hence, the American State Department promptly denied that it had yet received any "communication formal or informal" on the subject. While obviously not unwilling to listen to Japan, it was "authoritatively stated" that, whatever the nature of the Japanese communication, the United States will proceed with the naval construction program. It is thus clear that in restating American policy in the Far East by the adoption of a new naval program, the Roosevelt administration is now taking a firmer tone than at any time since 1921-22 when Secretary Hughes, at the Washington Conference, did some plain speaking.

The United States is being faced in the Far East with the alternatives of acquiescence or opposition to Japan so vigorous as to become impressive. Japan has taken the position that the Chinese respect only military force. At the same time Japan has, by so lightly casting off the Nine-Power Treaty, revealed that it also cannot be bound by a political agreement which is disadvantageous. It would appear as if the Roosevelt administration has decided that the best way to deal with Japan is by a show of force, such as Japan has used in dealing with China, and is disclosing to Russia.

While Mr. Debuchi, former Japanese Ambassador in Washington, is now pleading with American business men in Japan to support the Japanese policy in Eastern Asia, on the ground that the United States is bound to share in any commercial profit the Japanese gain in Manchuria and China, his successor, Hiroshi Saito, is in Washington to make a preliminary survey of the diplomatic situation before returning to Japan to confer with the Foreign Office. Mr. Saito, the youngest Ambassador Japan has ever sent to Washington, knows America well, for he was Consul General in New York from 1923 to 1928, and has also served as Chargé d'Affaires in Washington. He is reported to have said that the best thing that could happen to Japanese-American questions would be for them to be left off the front page for the next two years. Something very contrary to that seems more probable.

General Araki, who was reported ill with pneumonia on Jan. 5, resigned as Minister of War on Jan. 22, and was

replaced by General Senjuro Hayashi. While at first General Araki's resignation was accepted by some observers as a sign of the waning prestige of the military, against which there has been an undercurrent of criticism for some time, it was quickly apparent that General Hayashi, if anything, is a more determined militarist than his predecessor. It may be, however, that the new War Minister will be content, as General Araki was not, to leave the direction of foreign affairs to Premier Saito and Foreign Minister Hirota. The latter in his formal statement to the Diet, so often referred to in this article, endorsed the essential points of the Araki foreign policy. At least it may be asserted that there does not yet exist in Japan any anti-military party with influence of the slightest importance.

JAPAN'S RUSSIAN RELATIONS

The Tokyo generals, speaking through Lieut. Col. Seiichi Aoki of the Press Bureau of the War Office, continue to talk about the "inevitability of a Russo-Japanese War." This was the title of an article by Colonel Aoki in the New Year's supplement of the magazine *Hinode*. He concludes: "While the Soviet Government apparently has no intention of raising a storm at present, the Communist party is continuing its activities behind the scenes and it is certain that there has been no change in the Soviet Far Eastern policy. There is no compromise possible between Japan's mission for the maintenance of peace in the Far East and the Soviet preparations. Until Russia renounces her secret activities we cannot say there will not be war. The 1936 crisis is approaching and nobody knows when Russia will show her teeth against our country. I hope the whole nation will show its determination."

Foreign Minister Hirota, in his formal address to the Diet on Jan. 23, was only a little less positive. While disclaiming aggressive designs in Siberia, he rebuked the Soviet Government for its criticisms of Japanese policy: "It is most surprising and regrettable that the Soviet Union should now take to broadcasting at home and abroad, through the press and other channels, unwarranted criticisms directed against Japan, and circulate exaggerated stories about aggravations of this and that situation, evidently for political and diplomatic purposes which such rumors are calculated to serve."

As a gesture of friendship the Manchurian authorities, so it was reported on Jan. 14, decided to release the six Russian railway officials who, in spite of Russian protests, had been held since September, 1933. Two days later the Russian Ambassador in Tokyo resumed conversations with Mr. Hirota about the sale of the Chinese Eastern Railway. This new effort of Japan to reach an agreement with Russia is interpreted by some observers as having been promoted by the progress of the American naval program. (For a discussion of Russo-Japanese relations, see the article by Dean Furniss on page 757.)

THE RULERS OF MANCHUKUO

When Henry Pu-yi is enthroned as Emperor of Manchukuo on March 1, in accordance with "the will of Heaven," the country will be renamed Ta Manchu Tikuo, meaning Great Empire of Manchu. The spokesman of the Japanese Legation in Peiping on Jan. 16 issued a formal statement that the enthronement of Pu-yi was not to be construed either as forecasting the restoration of the Ching dynasty in China or the beginning of encroachment on North China. On the other hand, Foreign Minister

Hirota in his address to the Diet, one week later, bluntly stated that "the maintenance of peace and order in North China is of special concern to Japan. She expects China to see to it that nothing will happen that may bring chaos to that area."

"Special concern"—the phrase has a long history and has acquired rather definite meaning in the Far East. It was often used in relation to Korea while the latter was independent, and in relation to Manchuria before the Japanese occupation. As for Manchuria at present, a special correspondent of the New York *Sun*, on Jan. 10, set down as "certainties" the following: (1) No Chinese in the present régime has final authority; (2) every department has as its active head a Japanese; (3) the Chinese officials in the central government constitute a phantom organization; (4) the present régime does not represent any articulate choice of the people, for there exist no means for independent expression of public opinion.

For many months there have been persistent rumors that French capital would soon be available for investment in Manchuria. These rumors are particularly significant in that the non-recognition doctrine will lose much of whatever force it now has if it proves possible for Japan to borrow money for Manchukuo in countries which are parties to the non-recognition doctrine. It was reported, without qualification, from Tokyo on Jan. 12, that a "Franco-Japanese consortium for the development of Manchuria" is ready for the signature of officials of the South Manchurian Railway and André l'Olivier, representative of the French National Association for Economic Expansion. Signature was delayed pending the arrival from France of approval of the terms. The agreement contemplates very modest initial investments of French capital and looks principally toward supplying railway and construction material, but it is reported that French business interests in Paris are hesitant. Not only is the non-recognition principle involved, but also, probably, the Open Door. The agreement could not be concluded without the approval of the French Government, which voted for the League non-recognition resolution.

END OF FUKIEN REVOLT

The Fukien rebellion, which for a few weeks at the end of 1933 offered a definite challenge to Chiang Kai-shek's power in China, collapsed on Jan. 13, when a Nationalist naval landing party occupied Foochow as the once famous Nineteenth Route Army ignominiously withdrew, apparently without putting up a fight. The Nationalists advanced down the Min River from Yenping, which had been occupied on Jan. 6, to Shuikow, which fell three days later. The military operations appear to have been paralleled by negotiations with the rebels in which Mme. Chiang Kai-shek, Wellesley graduate, had a prominent part. It was currently rumored that for withdrawal the rebel leaders were paid $6,000,000 (Mexican) by Nanking. Another factor in the Nationalist success was the help thrown into the scale, after the fall of Yenping, by a large volunteer neutral force in Southern Fukien. The stability of the Nationalist position was so quickly apparent that the small landing party of American marines at Foochow was withdrawn within a few days. General Chiang Kai-shek appears to have measurably increased his prestige.

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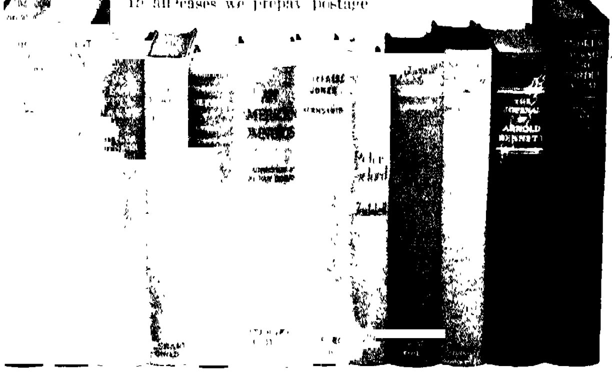
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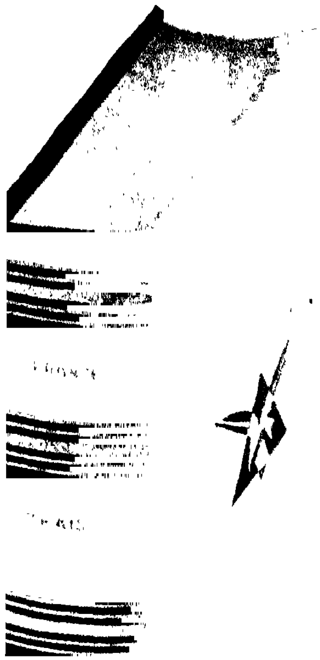
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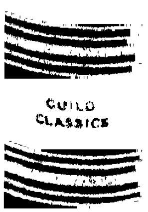
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